U.S. Nuclear Regulatory Commission

# Accountability Report

## Fiscal Year 1996

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Vol. 2

# Accountability Report

## Fiscal Year 1996

U.S. Nuclear Regulatory Commission
Office of the Chief Financial Officer

# NRC Principles of Good Financial Management

Those who handle public resources have a special responsibility to safeguard the resources entrusted to them and to use them properly. Poor financial management by NRC can undermine the confidence that we are effectively accomplishing our health and safety mission. NRC managers must ensure that public funds are used for authorized purposes only and that they are used economically, efficiently, and within established limits. Toward these ends, the NRC uses the following Principles of Good Financial Management.

**PLANNING.** Good financial management begins with good planning. NRC's strategic planning should be based on sound assumptions and accurate information and should provide the foundation for the entire fiscal process. Resource requests must be consistent with program goals, guidance, and planning assumptions, and must consider current financial status. Plans should be developed for commitment and obligation of funds based on program needs, procurement lead times, and the need for continuity of funding.

**CONTROL.** Good financial management requires good financial control. Appropriate effective cost controls throughout the financial management process ensure adequate accounting of funds expended, prevent over-obligation of funds and inappropriate expenditures, identify early instances where funds should be reallocated, and produce valuable information for the planning process.

**COMMUNICATION.** Good financial management requires good communication among those involved in the financial management process. Complete, accurate, and timely financial information must be readily available, and financial implications must be considered in decision making. Financial systems should be integrated and meet both agency and office data needs. New information and ideas must be shared throughout the organization.

**COST EFFECTIVENESS.** Good financial management balances expenditures and results. Managers at all levels must ensure that NRC gets what it pays for and that the results are what NRC needs to accomplish its mission. Ongoing projects should be evaluated to ensure results justify continued funding. Appropriate precautions ensure that waste is avoided. To ensure maximum utility of available resources, funds should be obligated as early as practicable during the fiscal year, and excess funds should be deobligated as soon as practical after project completion.

**EVALUATION.** Good financial management requires periodic evaluation of performance against meaningful financial and program performance measures. Such performance assessment should evaluate planned versus actual program results as well as the comparison of program costs with program accomplishments.

**PERSONNEL.** Good financial management is the product of competent and motivated people. Those who are given financial management responsibility must have integrity, dedication and be well trained and qualified. They must have authority commensurate with their responsibility, and they must be recognized when they achieve superior performance.

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# Foreword

This is the second year that the U.S. Nuclear Regulatory Commission (NRC) has participated in a pilot project, along with several other Federal agencies, to streamline financial management reporting. The goal of this pilot is to consolidate performance-related reporting into a single accountability report. The project, which is being carried out under the guidance of the Chief Financial Officers Council, was undertaken in accordance with the Government Management Reform Act (GMRA) of 1994. The GMRA permits the streamlining of financial management reports in consultation with the appropriate congressional committees through a liaison in the U.S. Office of Management and Budget (OMB).

This report consolidates the information previously reported in the following documents:

- NRC's annual financial statement, required by the Chief Financial Officers Act of 1990
- Chairman's annual report to the President and the Congress, required by the Federal Managers' Financial Integrity Act of 1982
- Chairman's semiannual report to the Congress on management decisions and final actions on Office of Inspector General audit recommendations, required by the Inspector General Act of 1978, as amended

This report also contains performance measures, as required by the Chief Financial Officers Act of 1990.

Comments on the content and presentation of this report are welcome, and may be addressed as follows:

Office of the Chief Financial Officer
Mail Stop T-9 F6
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001


# The NRC's Mission

***NRC regulates the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment.***

# Message From the Chairman

I am pleased to present the U.S. Nuclear Regulatory Commission's accountability report for Fiscal Year (FY) 1996. This is the second year that the NRC has produced an accountability report in an effort to streamline statutory performance-related reporting in accordance with the Government Management Reform Act of 1994.

The NRC evaluated its management control and financial management systems for FY 1996, as required by the Federal Managers' Financial Integrity Act of 1982. The results of this evaluation provided reasonable assurance that the NRC achieved the objectives of the Act. The evaluation disclosed no material weaknesses in the NRC's programs or administrative activities and no material non-conformances with governmentwide requirements in the NRC's financial management systems.

For the past 12 years, the overall U.S. nuclear power reactor industry's safety performance has shown continuing improvement as measured by the use of performance indicators. There are some plants, however, that have exhibited adverse performance that warrants increased attention.

To strengthen our ability to perform our mission of protecting public health and safety, the Commission realigned our top management structure, after carefully examining the current organizational structure and the insights gained from the various self-assessment efforts that the NRC has conducted over the past year. The new organization became effective on January 5, 1997.

In September 1995, I initiated a strategic assessment and rebaselining of the agency to analyze where the NRC currently stands and outline a path to take it where the Commission believes it should be in the future. This initiative was necessary to position us to meet effectively the challenges we face and to guide our activities and decision making in the future. The strategic assessment and rebaselining effort will enable the NRC to develop a strategic plan that is the basis for the agency's budgeting and performance plan. We sought the views and comments of our stakeholders as part of the decision making process before making final decisions on the agency's key strategic issues. A strategic plan and performance plan, which will meet the requirements of the Government Performance and Results Act of 1993, will be issued in FY 1997.

We continue to work to improve our financial management and management controls to achieve the best possible support for our regulatory responsibilities. The issuance of this second annual report confirms our commitment to provide accountability for the agency's programs and financial management.

Shirley Ann Jackson
Chairman
U.S. Nuclear Regulatory Commission

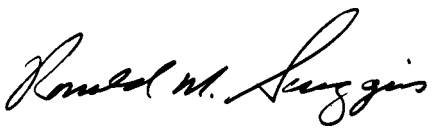
# Message From the Chief Financial Officer

The U.S. Nuclear Regulatory Commission issued its first audited financial statement in fiscal year (FY) 1992 and received unqualified audit opinions in FYs 1994 and 1995. For FY 1996, I am pleased to report that the NRC again received an unqualified audit opinion. This opinion, finding no material weaknesses and a reduction in reportable conditions, reflects the continuing high priority the NRC places on sound financial management and public accountability.

We are continuing to enhance financial management at the NRC. We implemented a new strategy for debt collection. We have reduced delinquent debt each year since FY 1993, and as of the end of FY 1996, delinquent debt was less than 1 percent of total receivables. On-time payments for amounts subject to the Prompt Payment Act have increased and the amount of interest penalties incurred have decreased. We continue to work toward significantly reducing the amount of imprest funds through the use of third-party drafts, travelers checks, and automatic teller machine and BankCards. We have maintained a high percentage of employees who are paid by direct deposit/electronic funds transfer. More emphasis has been placed on electronic payments to vendors with the passage of the Debt Collection Improvement Act of 1996, which has resulted in an increase in the percentage of dollar value of vendor payments made by electronic funds transfer.

We also are continuing to seek improvements in our financial management systems. We are in the process of implementing an integrated payroll and personnel system and property accountability system. We are developing an agency-wide financial management system that will integrate financial planning data with financial management performance data. An overarching goal of the new agency-wide financial management system will be to eliminate the need for multiple financial tracking systems in the agency.

Adherence to sound financial management practices is more critical than ever to accomplish our mission and to meet new challenges presented by our changing environment. Our goals are to maintain the standards we have achieved, and to seek improved methods to carry out and account for our financial management responsibilities.



Ronald M. Scroggins
Acting Chief Financial Officer
U.S. Nuclear Regulatory Commission

# Management Summary

## Program Performance

### *Reactor Program*

- Licensee Safety Performance

On the basis of NRC-approved indicators of industry safety performance, operating experience in recent years shows that, overall, the performance at reactors has been improving; however, the NRC continues to identify individual plants with marginal performance and significant operational problems.

- Licensing Actions

The NRC issued one operating license in FY 1996. At the end of FY 1996, 110 commercial nuclear power reactors were licensed to operate in 32 States. The NRC received no new applications for operating licenses or construction permits, and issued no new construction permits in FY 1996.

In FY 1996, the NRC exceeded the goal for licensing actions less than 2 years old (96 percent versus goal of 95 percent); 77 percent of the licensing actions were 1 year old or less (compared to a goal of 80 percent) and more than 98 percent were 3 years old or less (compared to a goal of 100 percent). Some licensing actions are not being processed as quickly because resources are being used to actively address the recently identified design and licensing basis problems that are discussed below and because the NRC's program for amending licenses to convert to standard technical specifications has increased the number and complexity of licensing actions being submitted.

- Inspections

In FY 1996, the overall direct inspection effort totaled approximately 283,000 hours for all plants in operation versus the planned 295,000 hours. A primary contributor to the 4-percent variance from hours planned was the conduct of large reactor team inspections, which resulted in fewer direct inspection hours.

Insights gained from recent design and licensing basis problems at Millstone Unit 1, Haddam Neck, and Maine Yankee nuclear power plants have indicated that the nuclear industry's level of voluntary compliance may have decreased following the Commission policy decision to accept a voluntary program in 1992. Subsequent NRC followup activity was not oriented toward identifying design and licensing basis deficiencies. We believe that appropriate corrective actions are now in place. In an effort to determine the extent of the problem, the NRC has requested information from all nuclear power plants. The evaluation of the results of the licensee responses will aid NRC's assessment of the extent and magnitude of the problem and

*(continued)*

the need for additional generic followup actions. Based on the evaluation of NRC inspection results, industry submittals, and utility corrective action programs, the agency's current effort will be adjusted accordingly.

### *Nuclear Materials and Nuclear Waste Program*

- Licensing Actions

During FY 1996, the NRC completed the review of approximately 4,350 applications for new licenses, license amendments, and license renewals (sealed source and device designs are excluded). The number of licensing actions completed for materials users exceeded the NRC's projections by 12 percent. Also, the NRC reduced the number of pending licensing actions from 1,445 at the end of FY 1995 to 852 at the end of FY 1996. Of these pending licensing actions, 275 reviews at the end of FY 1996 did not meet the NRC's timeliness goals.

- Materials Inspections

During FY 1996, the NRC completed approximately 2,200 inspections of materials facilities, exceeding the planned number of inspections by approximately 15 percent.

- Site Decommissioning Management Plan

There are currently 45 sites on the Site Decommissioning Management Plan list; 3 sites were planned for remediation, and 3 sites were removed from the list in FY 1996.

- High-Level Nuclear Waste Regulation

In FY 1996, the NRC refocused its repository program on resolving ten Key Technical Issues (KTIs) most important to repository performance. Activities were reprioritized and organizations restructured to support issue resolution and improve integration of technical work. Other work important to licensing was deferred. Agreement was reached with the Department of Energy (DOE) on the potential significance to repository performance of eight of the ten KTIs.

### *Regulatory Research Program*

During FY 1996, the NRC completed 14 rules and resolved three generic safety issues involving (1) automatic emergency core cooling system switchover to recirculation, (2) embrittlement of reactor pressure vessel supports, and (3) monitoring of fatigue transient limits for reactor coolant systems.

### *Responsiveness to the Public's Safety Concerns*

In FY 1996, the NRC met its goals to close allegations pertaining to technical issues where wrongdoing is not suspected in an average of 6 months from receipt and allegations pertaining to wrongdoing by an NRC licensee in an average of 18 months from receipt.

# Management Accountability

### *Management Controls*

The NRC's annual evaluation of management controls and financial management systems disclosed no material weaknesses in NRC programs or administrative activities and no material non-conformances with governmentwide requirements in the NRC's financial management systems.

### *Audits*

At the end of FY 1996, the NRC had four audits with outstanding actions in excess of 1 year old.

# FY 1996 Audited Financial Statement

For the third successive year the NRC received an unqualified audit opinion on its financial statement. Three reportable conditions were carried over from FY 1995. Two of these were removed in FY 1996, leaving one carryover reportable condition, which pertains to the need for a payroll system that is integrated with the general ledger and that possesses labor distribution capabilities. The Office of Inspector General (OIG) noted one new reportable condition in FY 1996, involving the need to improve procedures for capitalizing automated data processing software.

# About the U.S. Nuclear Regulatory Commission

The U.S. Nuclear Regulatory Commission (NRC) is an independent regulatory agency of the Federal Government that was created by the U.S. Congress to regulate the Nation's civilian use of byproduct, source, and special nuclear materials to ensure adequate protection of the public health and safety, to promote the common defense and security, and to protect the environment. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, along with the Atomic Energy Act of 1954, as amended, which provide the foundation for regulating the Nation's civilian uses of nuclear materials.

## Organization

The NRC is headed by five Commissioners appointed by the President and confirmed by the Senate for 5-year terms. The President also designates one of these Commissioners as Chairman, to serve as the principal executive officer and official spokesman for the Commission. In FY 1996, the Executive Director for Operations (EDO), as the chief operating and administrative officer of the NRC, carried out the policies and decisions made by the Commission. The EDO had also been designated as the NRC's Chief Financial Officer (CFO). In order to strengthen the agency's ability to perform its mission of protecting public health and safety, the Commission realigned the NRC's top management in a reorganization that became effective on January 5, 1997. In the new organization, the CFO became a separate position reporting to the Chairman along with the EDO and the Chief Information Officer (CIO). An Executive Council was established comprised of the EDO, CFO, and CIO. Responsibilities under the EDO also were realigned under three Deputy EDOs - (1) the Deputy Executive Director for Regulatory Effectiveness,

*(continued on page 2)*


*Chairman Shirley Ann Jackson, Center; From left to right, Commissioners Kenneth C. Rogers, Nils J. Diaz, Edward McGaffigan, Jr. and Greta J. Dicus*

Program Oversight, Investigations and Enforcement, (2) the Deputy Executive Director for Regulatory Programs, and (3) the Deputy Executive Director for Management Services. Charts showing the organization in effect in FY 1996 and the realigned organization effective January 5, 1997, are in the appendix.

## Regulatory Responsibility

The NRC's scope of responsibility entails regulating civilian nuclear reactors; fuel cycle facilities; medical, academic, and industrial uses of nuclear materials; and the transport, storage, and disposal of nuclear materials and wastes. The NRC carries out its mission through a licensing and regulatory system comprising the following activities:

- licensing the design, construction, operation, and decommissioning of nuclear reactors and other nuclear facilities (such as nuclear fuel cycle facilities, uranium enrichment facilities, and test and research reactors)
- licensing the possession, use, processing, handling, and exporting of nuclear materials
- licensing the siting, design, construction, operation, and closure of low-level radioactive waste disposal sites under NRC jurisdiction and the construction, operation, and closure of geologic repositories for high-level radioactive waste
- licensing the operators of civilian nuclear reactors
- inspecting licensed facilities and activities
- conducting research to gain independent expertise and information for making timely regulatory judgments and for anticipating problems of potential safety significance
- developing and implementing rules and regulations that govern licensed nuclear activities
- collecting, analyzing, and disseminating information about the operational safety of commercial nuclear power reactors and certain nonreactor activities

The NRC and its licensees share a common responsibility to protect the health and safety of the public. The NRC regulatory program is an important contributor in achieving this shared responsibility. NRC licensees, however, have the primary responsibility for the safe use of nuclear materials.

## Sources of Funds

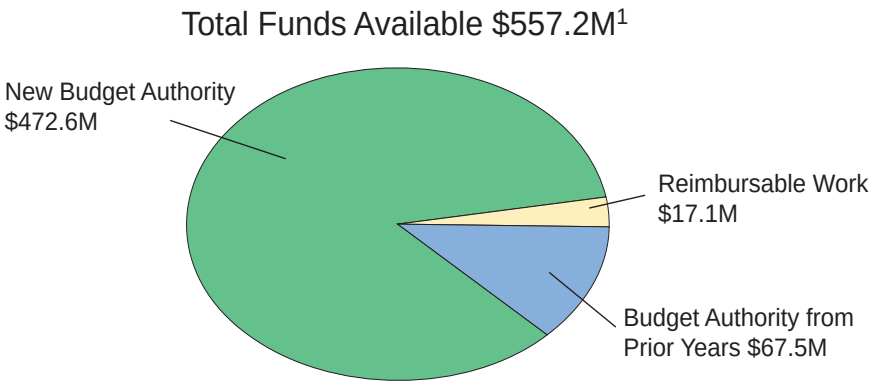
The NRC has two appropriations, and funds for both are available until expended. One appropriation is for agency salaries and expenses, and the other is earmarked for the Office of the Inspector General (OIG). The NRC's total new budget authority (excluding allocation account transfers from others) for fiscal year (FY) 1996 was $472.6 million: including $467.6 million from the Salaries and Expenses appropriation, and $5.0 million from the OIG appropriation. Additionally, available to expend in FY 1996 were $67.5 million from prior year appropriations, $9.2 million from prior year reimbursable work, $2.7 million from prior year direct transfer funds, and new reimbursable work to be performed for others totaling $5.2 million. The sum of all funds available to expend for FY 1996 was $557.2 million. (See Figure 1.)

Other than appropriated funds, the NRC has limited assets. Capitalized personal property is limited to typical office furnishings, personal property acquired by contractors with NRC funds, nuclear reactor simulators, computer hardware, and off-the-shelf and customized computer software. The NRC has no real property, loan, or loan guarantee programs.

## Uses of Funds by Function

As stated above, the total budget authority available (excluding allocation account transfers from others) for use by the NRC in FY 1996 was $557.2 million. Of that amount, the NRC incurred obligations of $520.3 million, with approximately 50 percent used for salaries and benefits. An additional 50 percent was used to

## Figure 1
## Sources of NRC Funds




[1] Total funds available reflects NRC appropriated budget authority and reimbursable work. It excludes transfer appropriations from the General Services Administration (GSA), $.4M, and the Agency for International Development (A.I.D.), $7.8M.

obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory safety research, to cover operating expenses (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), staff travel, and reimbursable work. (See Figure 2.) The remaining $36.9 million ($29.6 million from appropriations, $6.3 million from reimbursable work, and $1 million from direct transfer funds) in budget authority that was not obligated in FY 1996 will be available to fund critical needs in FY 1997.

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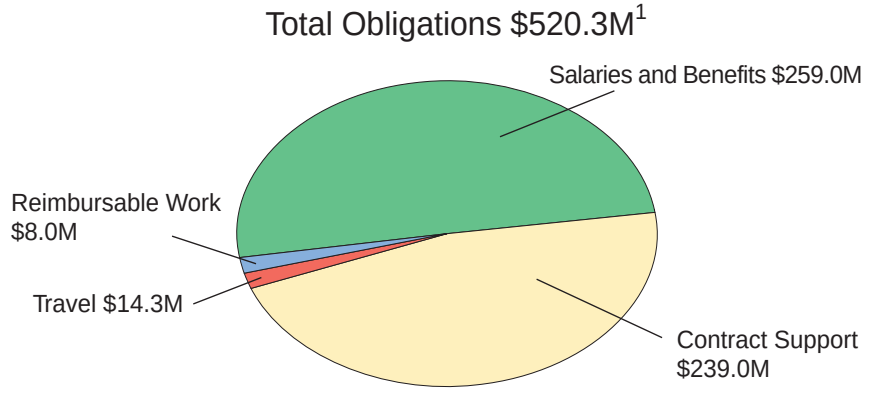
## Figure 2
## Uses of Funds by Function




[1] Total obligations reflects obligations against NRC appropriated budget authority and reimbursable work. It excludes obligations against transfer appropriations from the General Services Administration (GSA), $.1M, and the Agency for International Development (A.I.D.), $4.0M.

## Financial Condition of NRC

As of September 30, 1996, the financial condition of the NRC is sound with respect to having sufficient funds to meet program needs and sufficient control of these funds to ensure that NRC obligations do not exceed budget authority. The Statement of Financial Position shows a net position (assets minus liabilities) of $173.6 million. Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1990, the NRC collected approximately 100 percent of its new budget authority, excluding the amount appropriated from the Nuclear Waste Fund.

Over the past few years, the NRC has made a concerted effort to increase the effectiveness and efficiency of program financing by eliminating unnecessary financial reserves pending contract closeout, recovering funds on dormant contracts, exercising closer scrutiny of the need for planned projects, and more closely monitoring obligation and expenditure rates. This prudent financial management initiative has resulted in a 42 percent decrease in unobligated appropriated funds in FY 1996, compared to FY 1995. The NRC will continue its efforts to closely monitor its financial condition and planning policies to further reduce its unobligated balance in future years.

# Program Performance

This section highlights key aspects of the NRC's programs, including program goals and program performance measures. The program performance measures are related to such outcomes as safety effectiveness, such outputs as inspection effort, and timeliness of actions.

Consistent with the requirements of the Government Performance and Results Act of 1993, the NRC is in the process of developing a strategic plan which will be submitted to the Office of Management and Budget (OMB) and Congress by the end of FY 1997. That plan will define the overall agency goals and objectives which will form the basis for more specific performance goals and associated performance measures that will be included in the agency's Annual Performance Plan for FY 1999. That performance plan will also be submitted to OMB in September 1997, and subsequently to Congress. In future years, the NRC's accountability reports will reflect the same performance goals and measures as are found in the applicable performance plans for those years.

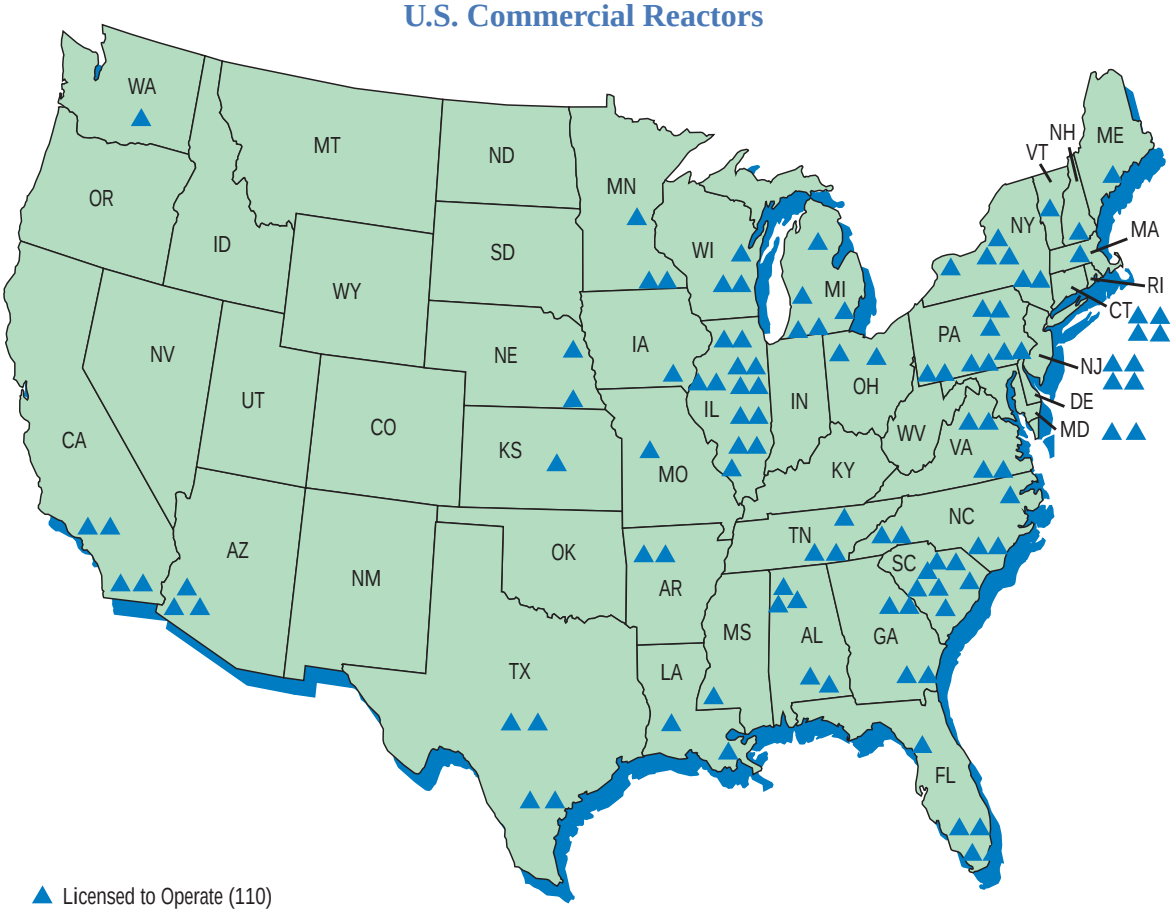
## Reactor Program

The Reactor Program encompasses all NRC efforts to ensure that civilian reactor facilities are operated in a manner that gives reasonable assurance of adequate protection of public health and safety as required by the Atomic Energy Act of 1954, as amended. The program also encompasses all reactor regulatory research, as required by the Energy Reorganization Act of 1974, as amended. In addition, the program encompasses all other functions associated with reactors, including evaluating safety concerns, assessing operational events and experience, training the NRC technical staff, performing independent reviews and giving legal advice to the Commission concerning safety issues, conducting adjudicatory

*(Continued on page 6)*

*Big Rock Point Nuclear Plant*

**Figure 3**
**U.S. Commercial Reactors**




Note: There are no commercial reactors in Alaska or Hawaii

reviews, investigating wrongdoing by reactor licensees, and implementing reactor enforcement policies and actions. The Reactor Program also encompasses all regulatory efforts for improving the licensing process for the next generation of standardized nuclear power reactors by minimizing the uncertainty in the regulatory process.

The principal goals of the NRC's Reactor Program for FY 1996, as stated in the agency's FY 1996 budget, were to:

- Ensure that nuclear power plants and other licensed facilities are operated safely, and that licensees are adequately prepared to respond to accidents.
- Ensure that nuclear power plants under construction are designed and constructed properly and are ready for safe operation.
- Ensure that adequate capabilities exist for licensing of evolutionary and advanced reactor designs and for reactor license renewal activities.

At the end of FY 1996, a total of 110 commercial nuclear power reactors were licensed to operate in 32 States. These reactors generate approximately 22 percent of the Nation's electricity. (See Figure 3.)

The NRC received no new applications for operating licenses or construction permits, and issued no new construction permits in FY 1996. The NRC issued one operating license in FY 1996.

### *Licensee Safety Performance*

The safety of civilian nuclear reactors is the responsibility of NRC licensees. The regulatory oversight of licensee safety is the responsibility of the NRC. The safety performance of licensees is partially a reflection of NRC performance; however, it is not possible to isolate the causal relationship or a specific set of factors that directly links NRC's performance to licensee performance.

Safety performance indicators reflect the collective results of the efforts of the NRC and the nuclear industry. The overall trends in industry performance indicate that the NRC is succeeding in its mission of protecting public health and safety.

Seven NRC-approved indicators of industry safety performance are shown in Figure 4.

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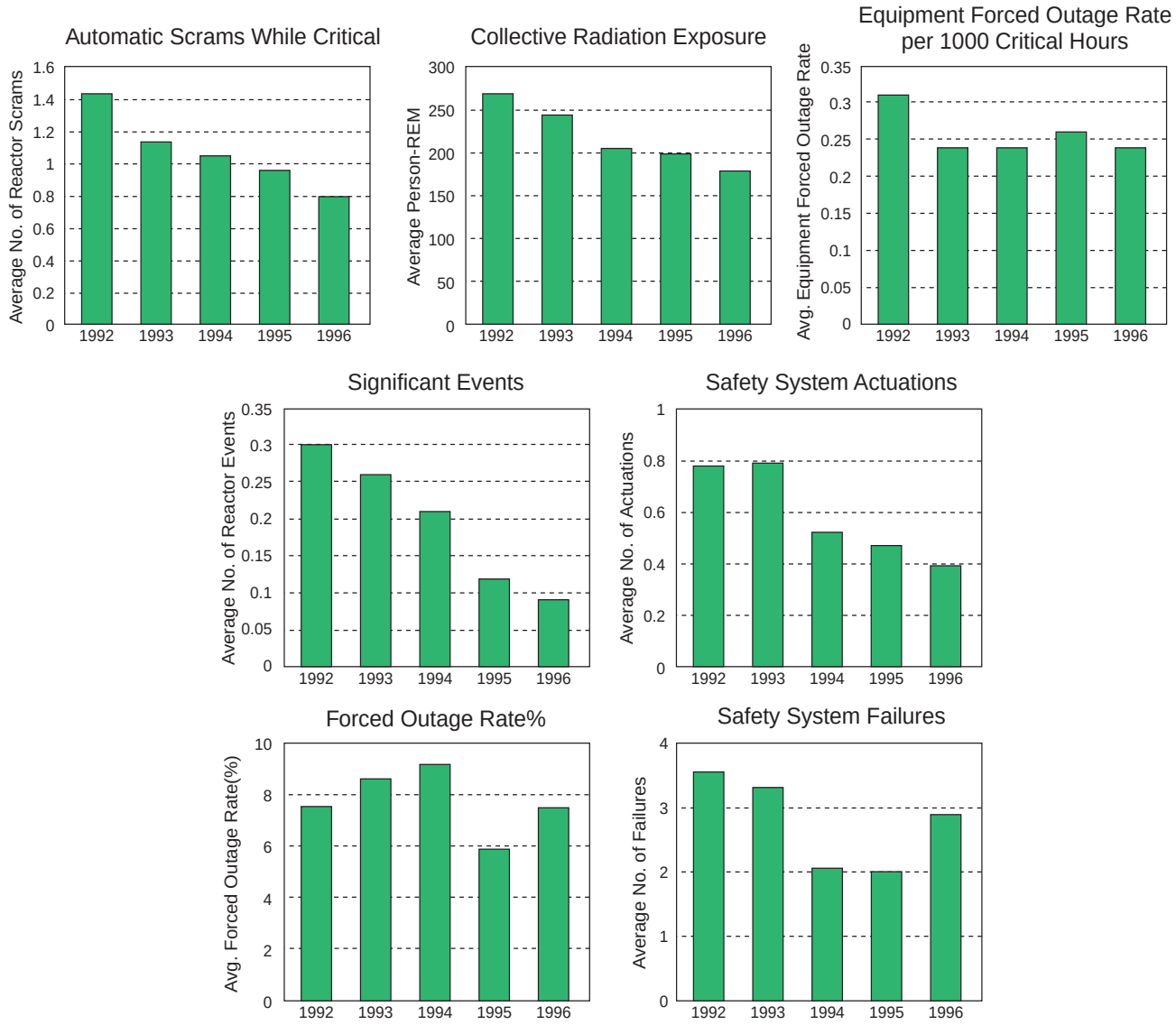
**Figure 4**
**Performance Indicators for Operating Nuclear Power Reactors**
**Annual Industry Averages, 1992-1996***




* Calendar year values are shown for 1992 through 1995. Fiscal year values are used beginning in 1996. Data for October 1, 1995, through December 31, 1995, are included in both calendar year 1995 and fiscal year 1996 values.

Although operating experience in recent years shows that, overall, the performance at reactors has been improving, the NRC continues to identify individual plants with marginal performance and significant operational problems.

### *Licensing Actions for Operating Power Reactors*

Either routine activity, technical advances, or unexpected events at a nuclear facility can result in a need for NRC to take licensing action. During FY 1996, the NRC completed 1,418 licensing actions for operating power reactors (Figure 5).

More than 99 percent of the actions in inventory are plant-specific amendments requested by licensees, and the rest result from NRC-imposed requirements. The total licensing action inventory has increased from 1,000 licensing actions at the end of FY 1995 to 1,101 under review at the end of FY 1996 (Figure 6). In FY 1996, the inventory increased because of two primary factors. First, the NRC is actively addressing the recently identified problem of some inconsistencies in the compliance of the design basis and operating procedures at some nuclear power plants. The NRC is taking corrective action, as necessary, and is assessing whether there are generic implications that could result in changes to the regulatory process. For those reasons, some licensing actions are not being processed quickly. Second, the NRC's program for amending licenses to convert to standard technical specifications has increased the number and complexity of licensing actions being submitted.

The NRC has established goals to control the size and age of the licensing action inventory. The goals call for 80 percent of these actions to be 1 year old or less, 95 percent to be 2 years old or less, and all actions to be no more than 3 years old. Figure 7 shows the age and percentage of licensing actions in the inventory at the end of each year from FY 1994 through 1996.

From 1989 to 1996, the percentage of licensing actions more than 3 years old has dropped from 23 percent to less than 2 percent. The NRC exceeded the goal for licensing actions less than 2 years old (96 percent versus goal of 95 percent).

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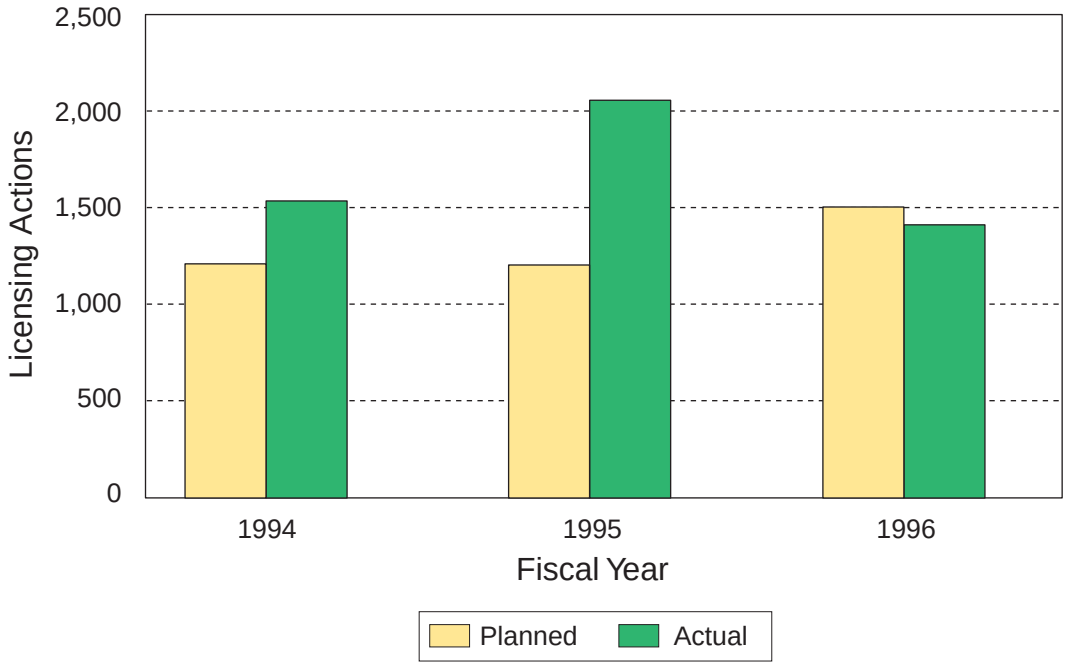
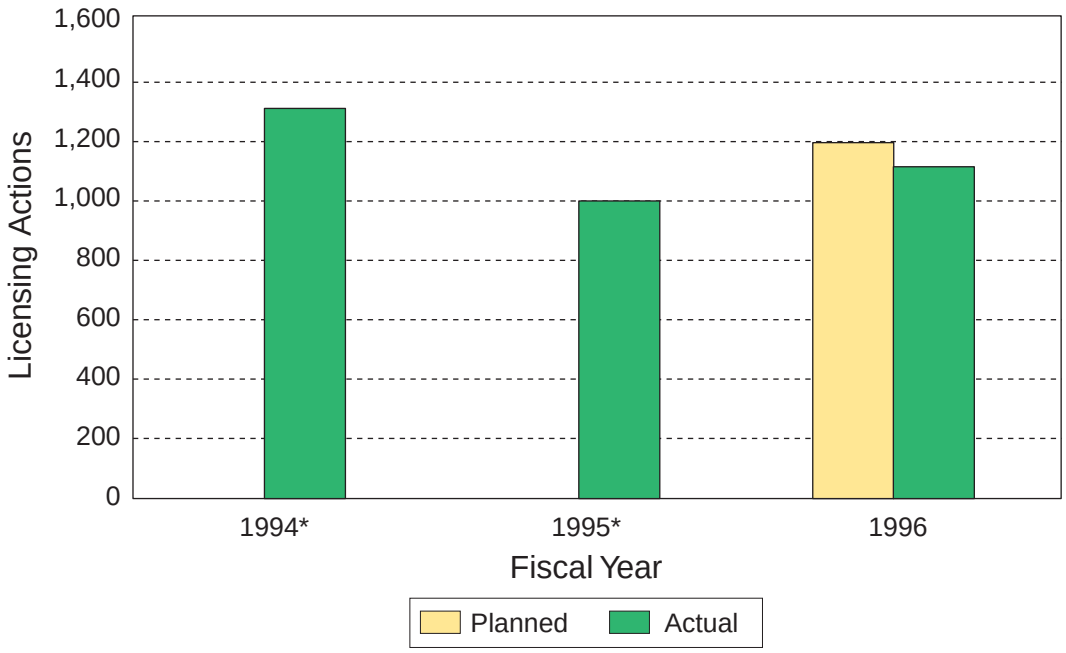
**Figure 5**
**Licensing Action Completions**



## Figure 6
## Licensing Actions Inventory




* FY 1994 and 1995 data for planned licensing actions inventory are not available.

## Figure 7
## Age of Licensing Actions

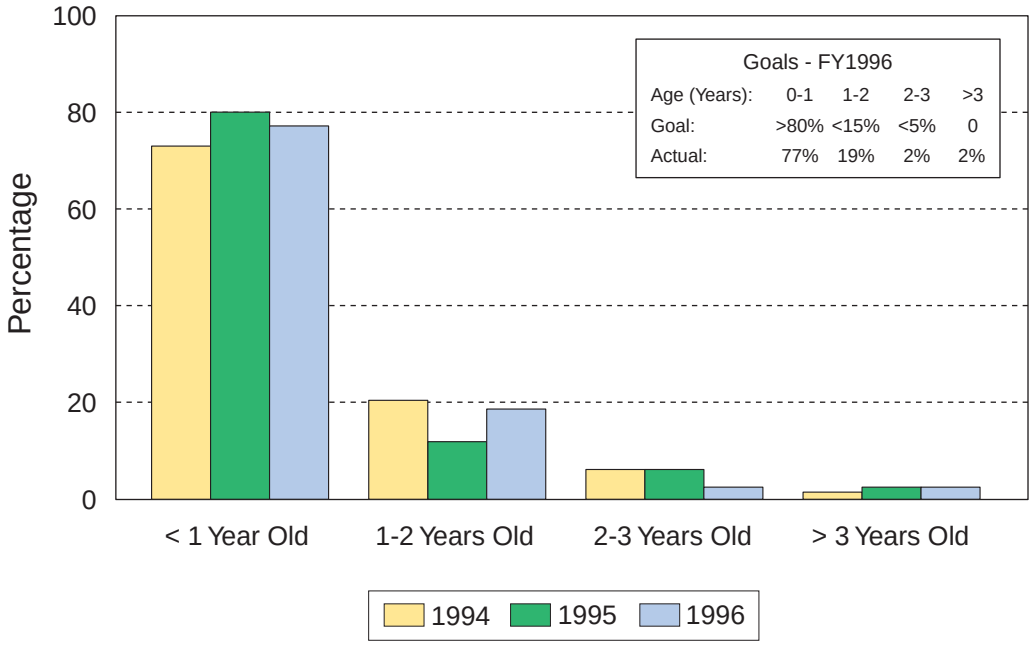
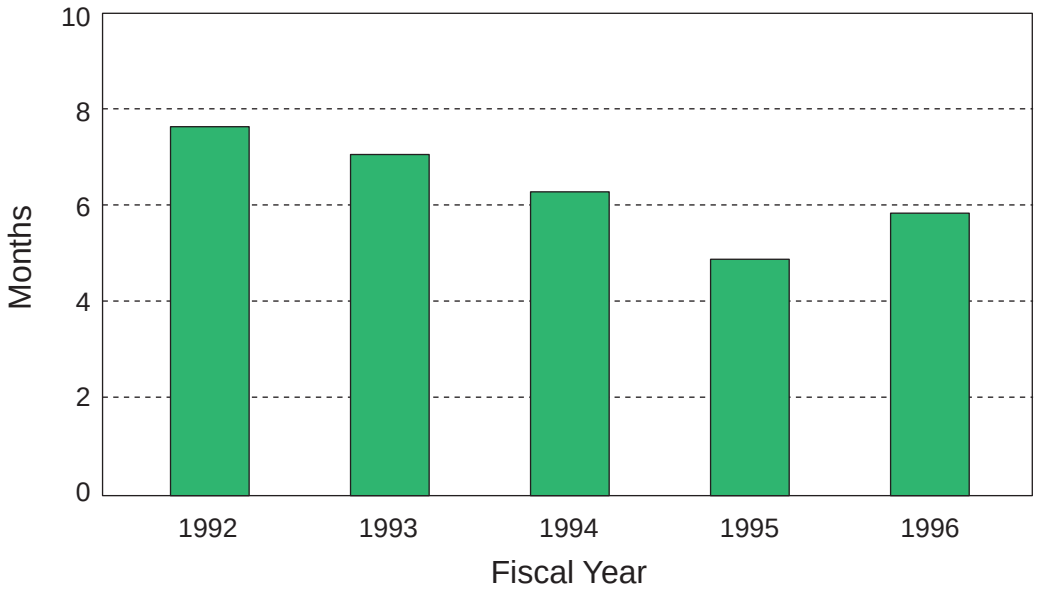


**Figure 8**
**Licensing Actions**
**Median Age of Inventory**




At the end of FY 1996, 77 percent of the licensing actions were 1 year old or less (compared to a goal of 80 percent) and more than 98 percent were 3 years old or less (compared to a goal of 100 percent). As Figure 8 shows, the decreasing trend of the median age of the licensing action inventory did not continue in FY 1996 because of the factors mentioned previously.

### *Inspection Activities*

Three essential components of the NRC's reactor inspection program are to determine the state of reactor safety, to confirm that operations comply with the provisions of the license, and to ascertain whether other conditions exist with safety implications serious enough to warrant corrective action. The NRC's reactor inspection program is designed to ensure, through selective examinations, that the licensee identifies and resolves safety issues before they affect safe plant operations. The NRC inspection program is audit oriented to verify that relevant activities are being properly conducted and that equipment is being properly maintained to ensure safe operations. The inspection program comprises three major

*NRC Inspector Performing Safety Inspection*

program elements: core inspections, plant-specific regional initiative inspections, and generic issues inspections.

The NRC assigns at least two resident inspectors to each operating reactor site. These resident inspectors concentrate on day-to-day licensee operations, event followup, licensee management, and staff performance. NRC-region based and headquarters inspectors supplement the activities carried out by resident inspectors through a variety of program and technical inspections that afford an indepth look at licensee operations.

Historically, NRC staff spends an annual average of approximately 2,700 to 2,800 hours in direct onsite inspection activities at each reactor (Figure 9). This overall average is used to plan resource allocations for each reactor and is adjusted according to licensee performance.

In 1996, the overall direct inspection effort totaled approximately 283,000 hours for all plants in operation versus the planned 295,000 hours. A primary contributor to the 4-percent variance from hours planned was the conduct of large reactor team inspections, which resulted in fewer direct inspection hours. Figure 10 shows the use of allocated inspection resources in direct inspection activities, which are performed by resident and region-based staff.

A management weakness was identified as a result of events at Millstone Unit 1, Haddam Neck, and Maine Yankee nuclear power plants. Insights gained from the NRC's review of design and licensing basis problems at these plants have indicated that the level of industry voluntary compliance may have decreased following the Commission policy decision to accept an industry voluntary program in 1992. Subsequent NRC followup activity was not oriented toward identifying design and licensing basis deficiencies. The NRC does not believe that this issue resulted from a material weakness in management controls. In reaching this conclusion, several factors were considered, including the significance of the weakness, the effect on fulfillment of the mission of the agency or an agency component, the level of

*(continued on page 12)*

**Figure 9**
**Direct Region Onsite Inspection Hours Per Unit**

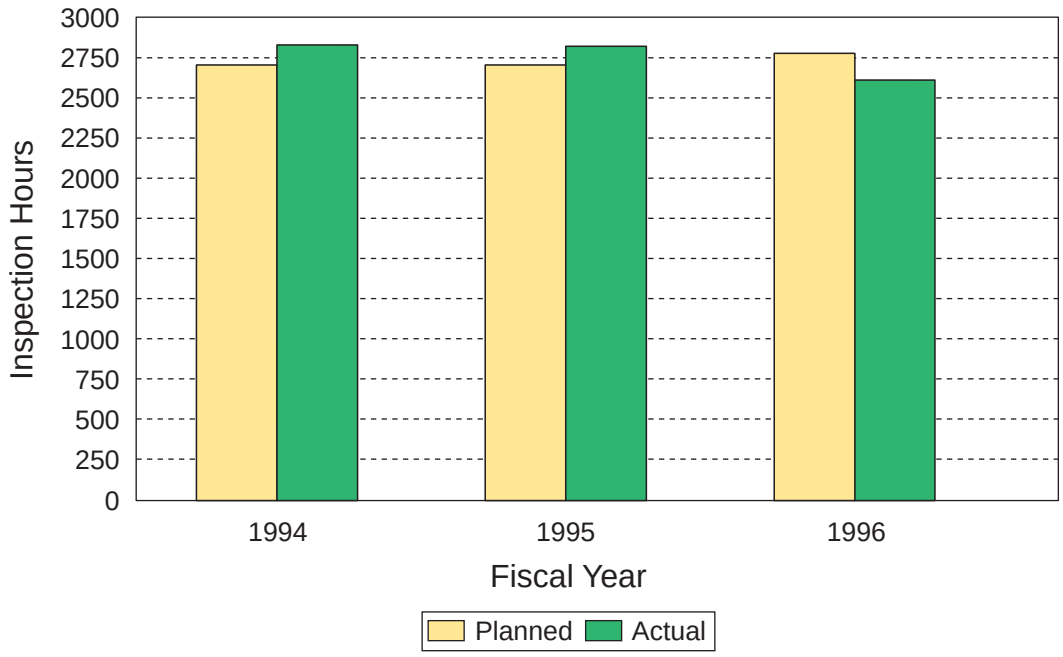
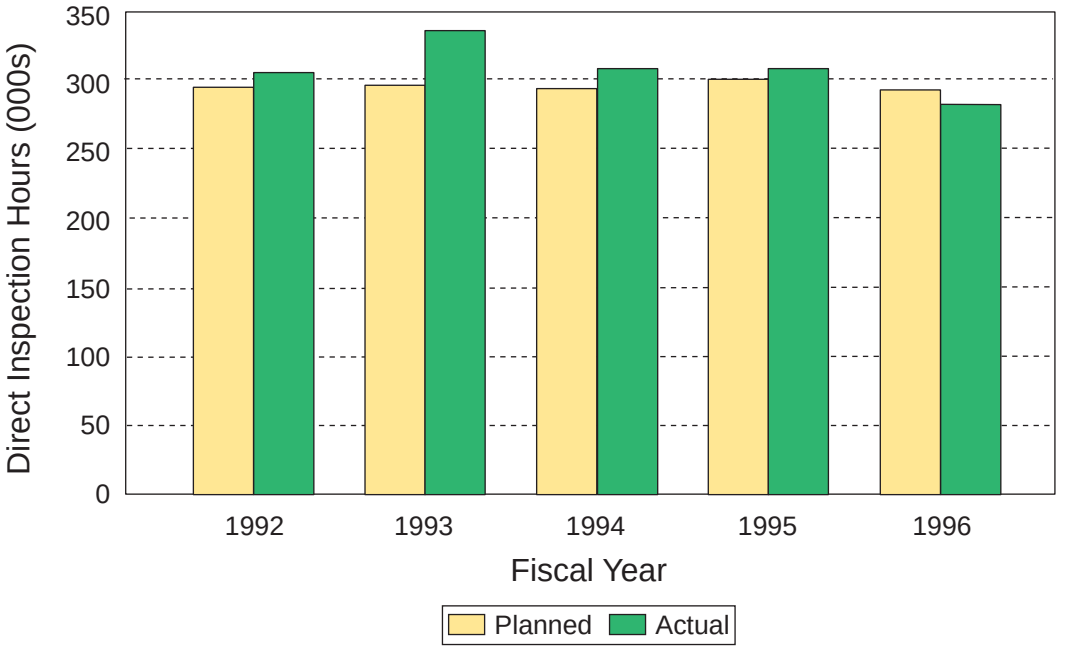


**Figure 10**
**Direct Inspection Hours**




risk resulting from weaknesses in controls, the effect on needed services provided to the public, whether the deficiency exists in a major program, and the views of the Inspector General.

While this is a management issue in a major program that could have some effect on the mission of the agency and services provided to the public, the extent of the problem is unclear at this time. The Inspector General (IG) has deferred to management's judgment on whether or not this issue constitutes a material weakness since his staff has not performed sufficient evaluation to reach an opinion.

The agency has taken action to significantly augment resources and to provide a process to deal with the problems identified in this area. A Special Projects Office was set up to focus on Millstone specific problems and recommend any additional lessons learned to be incorporated into the reactor oversight program. In an effort to determine the extent of the design basis problem, the agency sent letters requesting information regarding design and licensing basis programs from all nuclear power plants. The evaluation of the licensee responses will aid NRC's assessment of the extent and magnitude of the problem and the need for additional generic followup actions. Given the actions taken and ongoing, we believe that appropriate corrective actions are now in place. Based on the evaluation of NRC inspection results, industry submittals, and utility corrective action programs, the current effort will be adjusted accordingly.

## Nuclear Materials and Nuclear Waste Program

The Nuclear Materials and Nuclear Waste Program encompasses all NRC health and safety, safeguards, research activities, operational data analysis, technical training, adjudicatory reviews, investigations, enforcement, and independent safety and legal advice related to the licensing, inspection, and environmental reviews for fuel cycle facilities; the transportation of nuclear materials; the safe interim storage of spent fuel; nuclear materials users; the safe management and disposal of low-level and high-level radioactive wastes; and uranium recovery and related remedial actions. This program also

includes safeguards reviews for all licensing activities involving the export of special nuclear material and the integrated agency effort to oversee decommissioning of facilities and sites associated with NRC licensed activities.

The principal goals of the Nuclear Materials and Nuclear Waste Program for FY 1996 as stated in the agency's FY 1996 budget were to:

- Ensure that current and future uses and transportation of nuclear and radioactive materials are safe and have adequate safeguards.
- Ensure that high-level and low-level nuclear waste and uranium mill tailings are safely managed and disposed of.
- Ensure that facilities no longer in operation are adequately and safely monitored or decommissioned.

Approximately 21,500 licenses have been issued for medical, academic, and industrial uses of nuclear materials. About 30 percent of these materials licenses are administered by the NRC.

The remaining licenses are administered by the 29 Agreement States that, through a formal agreement with the NRC, have assumed regulatory responsibility over byproduct and source materials, and small quantities of special nuclear materials.

The NRC also licenses and inspects all commercial nuclear fuel facilities involved in processing and fabricating uranium ore into reactor fuel. Nine major facilities were licensed to operate in eight States at the end of FY 1996.

The NRC and some Agreement States have the licensing and regulatory responsibility for ensuring the safe management and disposal of' low-level radioactive waste. Additionally, the NRC has the licensing and regulatory responsibility for ensuring the safe management and disposal of high-level radioactive waste.

*(continued on page 14)*

## Some of the Uses of Radioactive Materials

*Medical Applications*


*Industrial Applications*

*Research Applications*

### *Materials Licensing*

The NRC licenses and inspects approximately 6,400 specific licenses for use of nuclear and other radioactive material. These uses include medical diagnosis and therapy, medical and biological research, academic training and research, industrial gauging and nondestructive testing, production of radiopharmaceuticals, and fabrication of such commercial products as smoke detectors and other sealed sources and devices. Detailed health and safety reviews and inspections of licensee procedures and facilities provide reasonable assurance of safe operations and the development of safe products. The NRC completed the review of approximately 4,350 applications for new licenses, license amendments, and license renewals, including approximately 290 new licenses, 3,040 license amendments, and 1,010 license renewals (sealed source and device designs are excluded). This number of completions exceeded the NRC's projections by 12 percent. (Figure 11).

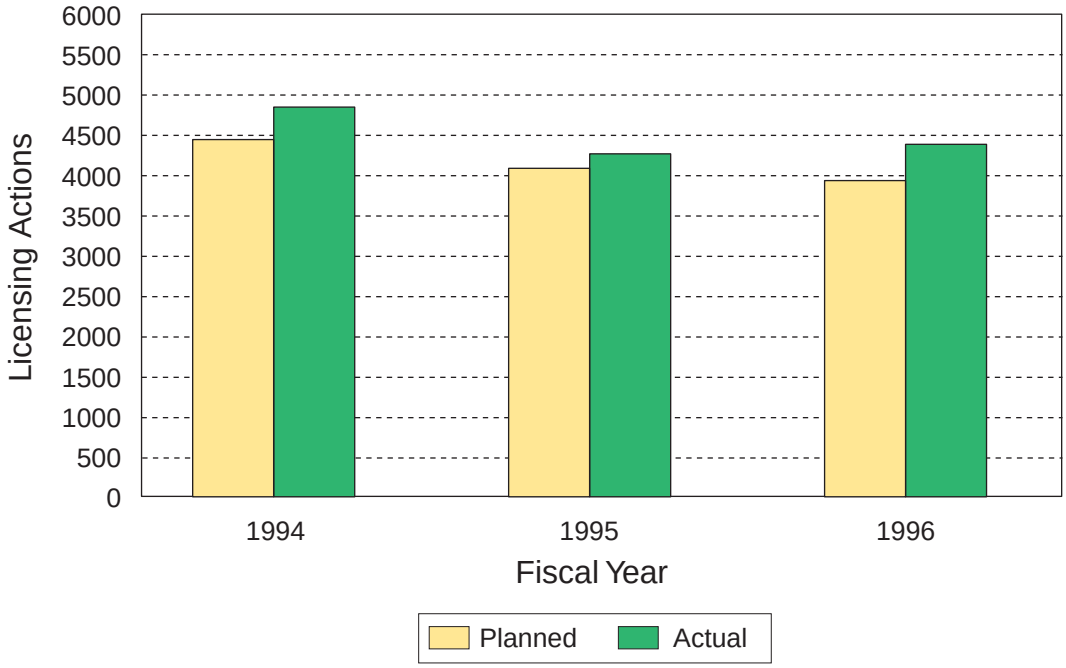
The NRC's timeliness goal is to complete 80 percent of new applications and amendment requests for byproduct materials licenses within 90 calendar days of their receipt, and to complete the remainder within 180 calendar days of receipt. The goal for renewal applications is to complete 80 percent within 180 calendar days, and the remainder within 1 year. Backlogged reviews are those that exceed the timeliness goal.

The NRC reduced the number of pending licensing actions from 1,445 at the end of FY 1995 to 852 at the end of FY 1996. Of these pending licensing actions, 275 backlogged reviews at the end of FY 1996 did not meet the NRC's timeliness goals. For reviews completed during each of the last 5 years, Figure 12 shows the average time required to complete new, amendment, and renewal licenses for byproduct materials.

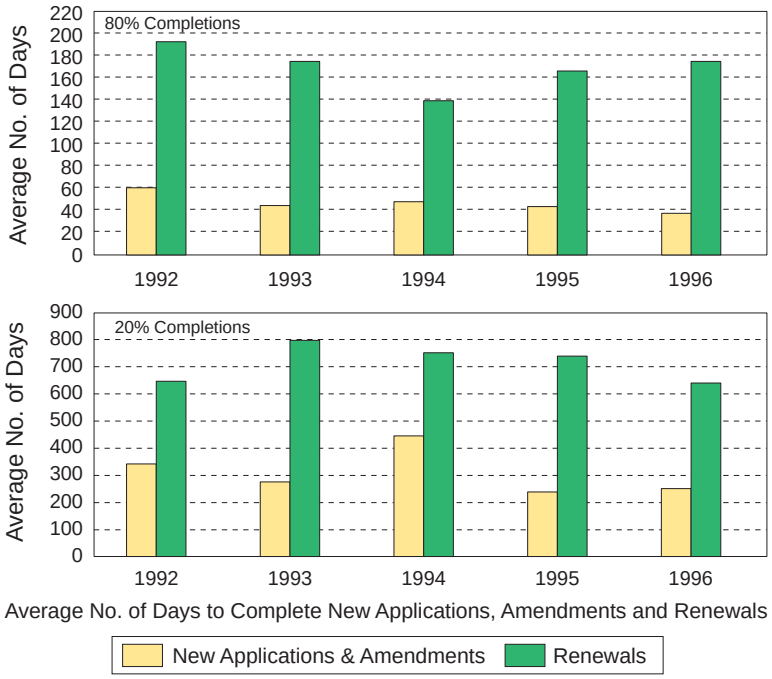
The materials licensing reviews backlog (Figure 13) presents a different perspective on the

*(continued on page 16)*

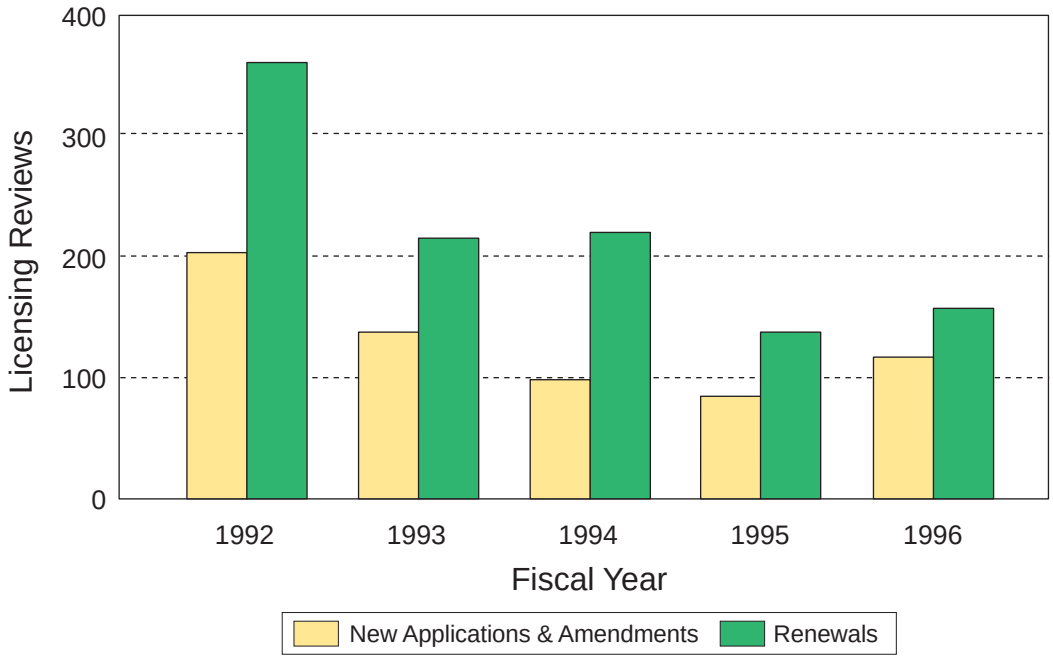
**Figure 11**
**Materials Licensing Action Completions**
**(Excludes Sealed Source and Device Designs)**



## Figure 12
## Materials Licensing Reviews
## Timeliness of Reviews Completed Each Fiscal Year




## Figure 13
## Materials Licensing Reviews
## Backlog



NRC's timeliness in processing licensing actions. This chart measures the number of actions to be completed at the end of each fiscal year that exceeded the timeliness goals expressed above. In addition, this chart shows that the NRC has significantly reduced the number of backlogged reviews, particularly license renewals, in the past 4 years.

### *Materials Inspections*

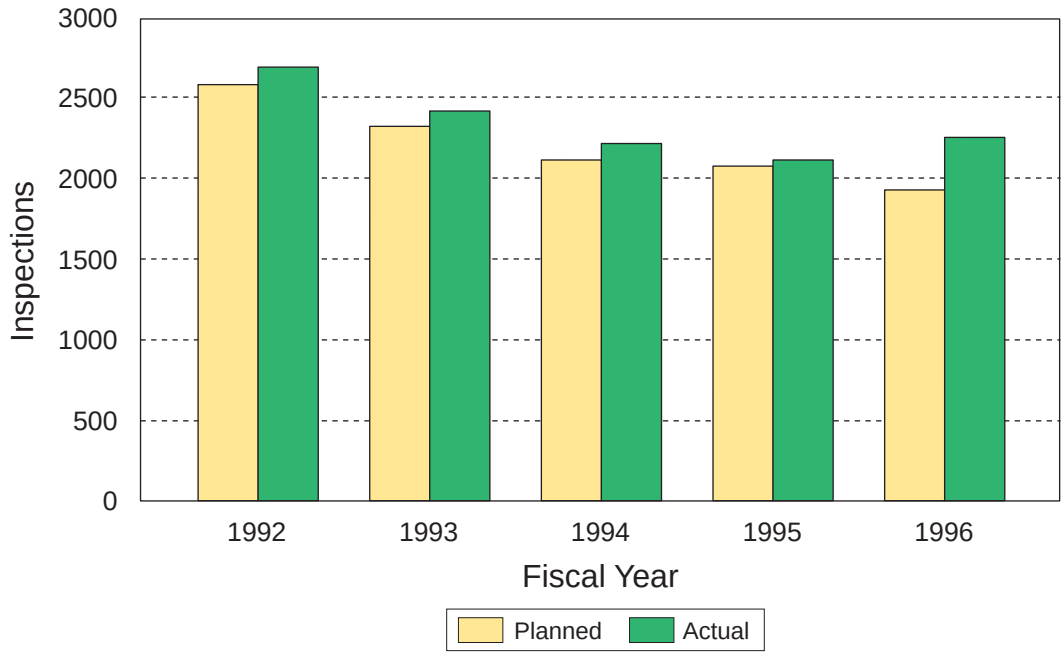
During FY 1996, the NRC completed approximately 2,200 inspections of materials facilities, exceeding the planned number of inspections by approximately 15 percent (Figure 14). Since FY 1992, the number of materials licenses has declined approximately 13 percent; therefore, fewer materials inspections were planned each year. The number of inspections conducted has been about level over the past 3 to 4 years.

### *Site Decommissioning Management Plan*

Several hundred NRC materials licenses are terminated each year. Most of these NRC-licensed operations result in little or no contamination of buildings or soil, and decommissioning actions leading to the termination of these licenses normally proceed in a routine fashion. Non-routine cases may involve sites at which buildings, former waste-disposal areas, large piles of tailings from metal extraction operations, groundwater, or soil are contaminated with uranium, thorium, or other radionuclides. These non-routine cases present varying degrees of radiological hazard, remediation complexity, and associated cost.

The Site Decommissioning Management Plan (SDMP) is used to ensure that generic and

**Figure 14**
**Materials Inspection Completions**



case-by-case issues affecting the timely decommissioning of these more difficult contaminated sites receive the appropriate level of management attention. There are currently 45 sites on the SDMP list; 3 sites were planned for remediation, and 3 sites were removed from the list in FY 1996 (as shown in Table 1).

### *High-Level Nuclear Waste Regulation Program*

The High-Level Nuclear Waste Regulation Program includes all of the NRC's public health and safety licensing, inspection, and environmental reviews for the safe management and disposal of high-level radioactive wastes, as well as research to assess the safety of high-level waste management, storage, and disposal. The NRC's high-level waste regulatory activities are mandated by the Nuclear Waste Policy Act of 1982, the Nuclear Waste Policy Amendments Act of 1987, and the National Energy Policy Act of 1992. The Nuclear Waste Policy Act specifies a detailed approach for long-range high-level waste disposal, with DOE having operational responsibility and the NRC having regulatory responsibility. This undertaking involves a complex, integrated system of waste handling, transportation, interim and retrievable storage, and ultimately deep geologic disposal of high-level waste, requiring the protection of public health and safety and the environment over thousands of years. The Nuclear Waste Policy Amendments Act directs the DOE to characterize only one candidate site, the Yucca Mountain site in the State of Nevada. The National Energy Policy Act directs the NRC to revise its regulations (10 CFR Part 60) within 1 year after the Environmental Protection Agency (EPA) issues new standards.

In FY 1996, the NRC refocused its repository program after a thorough evaluation of important external events, including budget reductions, DOE's revised program, and the National Academy of Sciences' recommendations for Yucca Mountain standards. The program was refocused on resolving ten Key Technical Issues (KTIs) most important to repository performance. Activities were reprioritized and organizations restructured to support issue resolution and improve integration of technical work. Other work important to licensing was deferred.

An initial step in the refocused program was to discuss the ten KTIs and the issue resolution process with DOE and other parties. As a result, agreement was achieved with DOE on the potential significance to repository performance of eight of the ten KTIs. Overall, for most of the KTIs, work in FY 1996 concentrated on establishing a sound technical basis for issues to be resolved during FY 1997 - 1998. FY 1996 activities also included field and laboratory

*(continued on page 18)*

**Table 1**
**SDMP Contaminated Sites**
**(Total Sites To Be Remediated = 45)**

| | FY 1992 | FY 1993 | FY 1994 | FY 1995 | FY 1996 |
|---|---|---|---|---|---|
| Total Sites To Be Remediated | N/A | 45 | 47 | 48 | 45 |
| Sites Planned for Remediation | 2 | 4 | 8 | 3 | 3 |
| Sites Remediated | 1 | 1 | 3 | 3 | 3 |

investigations and the development of models or computer codes to represent subsystems or processes of the repository. Both new and existing models were used to conduct sensitivity/importance analyses of various subsystems. The results of these analyses will help further focus NRC's issue resolution efforts on those factors shown to have dominant effect on repository subsystems or processes and will provide further value when linked with the total system performance code.

While the resolution of many KTIs is dependent on additional work, some important progress was made in FY 1996. Interactions between NRC and DOE were successful in achieving informal agreements that will be documented in future issue resolution status reports. Another NRC and DOE interaction identified differences between NRC and DOE total system performance assessments, their root causes, and potential future resolution actions. A branch technical position was completed giving an acceptable methodology for the use of expert elicitation. Interactions were conducted with EPA that contributed to the development of reasonable and implementable standards for the Yucca Mountain site. Additionally, NRC developed and installed a Licensing Support System Test Bed on an NRC Internet computer server site that provides access to a wide variety of NRC's technical documents.

## Regulatory Research Program

The primary goal of the NRC's Regulatory Research Program is to ensure that research provides sound technical bases for timely rulemaking and decisions in support of regulatory licensing and inspection activities. As part of this Regulatory Research Program, the NRC conducts research to provide independent expertise and information necessary for making timely regulatory judgements, to anticipate problems of potential safety significance for which new or expanded knowledge can assist the NRC in pursuing its mission, and to develop regulations and regulatory guides pertaining to Commission policy or technical requirements.

Research is generally planned and initiated in response to the needs of regulatory licensing and inspection programs or is directed in response to Commission decisions. Research priorities are determined by the overall value, importance, and impact that the research findings may have in responding to these program needs. The following were NRC's major research accomplishments in FY 1996:

- Supported nuclear power plant pipe fracture research since 1981. The work has included four major research programs, two with significant additional international funding, which were performed to solve engineering safety issues associated with the potential failure of cracked piping. The program has produced a significant body of experimental and analytical results that has been used to justify changes in NRC's regulations related to pipe failure and in the ASME Code Section XI concerned with evaluating cracks found during periodic inservice inspections of reactor piping. An independent review of this program has supported the staff's assessment that this program has met its objectives. Thus, the results of the research are being compiled and documented in the form of a regulatory guide addressing leak-before-break evaluations, and the research area is being closed.
- Completed tests on certain gate valve designs to determine their susceptibility to pressure locking and thermal binding. These undesirable circumstances may occur when operating conditions cause an increase in the internal pressure, and the shrinkage of the valve body during cooldown causes interference between valve internals. The pressure increase and the shrinkage create additional forces on the internals and require higher than expected extraction forces to open the valves. The research results show that these

valves are susceptible to pressure locking; however, the valves show little tendency for thermal binding at the conditions tested. The findings from this research work are being used by the regulatory staff for evaluating licensee responses to Generic Letter 95-07, "Pressure Locking and Thermal Binding of Safety-Related Power-Operated Gate Valves."

- Completed a compilation of technical insights based on the results of 75 individual plant examinations (IPEs). These insights focused on such items as important accident sequences in different pressurized-water reactor (PWR) and boiling-water reactor (BWR) design types, important human performance issues, and comparisons of IPE results with goals established for the station blackout rule. These insights have been published for public review and comment as NUREG-1560 and are being reviewed to identify potential safety issues not obvious from the study of individual plants. Followup activities will focus on the need for safety improvements at individual plants.

- Completed an integrated, conceptual framework for incorporating human errors of commission into probabilistic risk analyses (PRAs). This framework was published as NUREG/CR-6265. When fully tested, use of this framework will permit the incorporation of a more complete spectrum of potential human error events in PRAs, which, in turn, can be used to support the agency's risk-informed regulatory improvement programs.

- Completed the required modifications, validation, and adequacy demonstration of the RELAP5 thermal-hydraulic system analysis code. This accomplishment is particularly significant since it allows the NRC to perform audit calculations to support the certification of the Westinghouse AP600 passive reactor design. RELAP5 is a large and complex software tool developed and used by the NRC for the analysis of small-break loss-of-coolant accidents and operational transients in current generation nuclear reactor designs. The passive safety features of the AP600 call for extended operation during an event at low-pressure conditions, thereby requiring an extension of both RELAP5's capabilities and its assessment base. To this end, a 4-year program of code development, support experiments, and assessment was undertaken to extend the code's operating envelope to cover the AP600 range of conditions.

- Issued NUREG-0700, Revision 1, guidance for the evaluation of control stations in nuclear power plants. Use of this guidance will help minimize the opportunity for human error caused by poorly designed displays and controls. This updated guidance was needed because of the introduction of computer-based systems.

- Completed development of six draft regulatory guides on software quality. These guides build upon industry standards, where practical, and give guidance to the industry on methods acceptable to the NRC to ensure quality in new digital instrumentation and control systems.

- Completed a significant portion of its evaluation of direct containment heating (DCH), a severe accident issue that is important to early containment failure in PWRs. Resolution of this issue involved a substantial amount of testing and analyses. The results of the Office of Nuclear Regulatory Research (RES) evaluation, published in NUREG/CR-6338, concluded that for 41 Westinghouse large, dry and subatmospheric containment reactors, DCH poses no tangible threat to containment integrity. The resolution of this issue for a substantial number of plants eliminates this matter from further analysis. Additional work is under way to resolve this issue for the remaining PWR plants.

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### Generic Safety Issues

Generic safety issues involve safety concerns that may affect the design, construction, or operation of all, several, or a class of reactors or facilities. The resolution of such issues may involve safety improvements or the issuance of new or revised requirements or guidance. During FY 1996, the NRC resolved three of these issues dealing with (1) automatic emergency core cooling system switchover to recirculation, (2) embrittlement of reactor pressure vessel supports, and (3) monitoring of fatigue transient limits for reactor coolant systems.

### NRC Regulations

The NRC establishes the rules that operators of nuclear facilities and users of radioactive materials must follow. These rules are intended to protect persons using radioactive materials, as well as the general public, from the potential hazards of radioactivity. NRC regulations are established or changed, as necessary, on the basis of recommendations from NRC staff. Members of the public and interested organizations can also request changes in regulations. The views of the public, the industry being regulated, and other interested parties are usually solicited before the Commission adopts new rules or changes. In FY 1996, the NRC completed 14 rules; 5 major rules are described below:

- Issued a new annealing rule, 10 CFR 50.66, and a new Regulatory Guide 1.162, "Format and Content of Report for Thermal Annealing of Reactor Pressure Vessels." These provide the basis for performing a thermal anneal of an embrittled reactor pressure vessel (RPV) to restore the strength and toughness to nearly their original condition. Thermal annealing is the only process that can reverse the deleterious effects of neutron embrittlement on RPV steel. The NRC staff has closely observed the activity of the DOE's Annealing Demonstration Project (ADP), which performed an engineering feasibility demonstration of the annealing of a canceled U.S. nuclear power plant. Although DOE has not published the ADP results, the NRC's independent assessment of the demonstration results appears to confirm the engineering feasibility of thermal annealing for U.S. reactor designs. The regulation, regulatory guide, and annealing demonstration serve as the regulatory and technical bases to support licensee plans to anneal RPVs as a basis for extending the useful life of these components.

- Issued a final rule incorporating by reference ASME Section XI, Subsections IWE and IWL, into 10 CFR 50.55a. Subsection IWE contains requirements for inspecting metal containments and liners of concrete containments; Subsection IWL contains requirements for inspecting concrete containments and post-tensioning systems. The rate of occurrence of corrosion and degradation of containment structures has been increasing at operating nuclear power plants. The final rule will ensure that the critical areas of containments are routinely inspected to detect and take corrective action on defects that could compromise a containment's structural integrity.

- Issued a final rule amending the criteria for seismic and geologic siting and earthquake engineering. A new section (100.23) has been added to the existing body of regulations in 10 CFR Part 100. The revised regulation now explicitly recognizes that there are inherent uncertainties in establishing seismic and geologic design parameters and allows for the option of using a probabilistic seismic hazard methodology capable of propagating uncertainties as a means to address these uncertainties. Public commenters supported the revised regulation, specifically the removal of prescriptive guidance from the regulation and the relocation in regulatory guides or in standard review plans. Earthquake engineering criteria not associated with the selection of the site or establishment of a safe-shutdown-earthquake (SSE) ground motion are now located in 10 CFR Part 50 in

a new Appendix S. The final rule is a first step in decoupling siting from plant design and updating other site criteria. This rule is applicable to future plants and early site permits filed under 10 CFR Part 52.

- Issued a final rule on the environmental effects of license renewal for nuclear power plants (10 CFR Part 51). This final rule amends the Commission's regulations to establish new requirements for environmental review of applications for renewal of nuclear power plant operating licenses. The rule defines the number and scope of environmental issues that need to be addressed as part of a license renewal application. In addition, the rule codifies NRC positions on other environmental issues so that they need not be addressed on a site-specific basis. By adopting these provisions, the regulatory burden will be reduced because the rule will provide a net saving to industry and the NRC. In addition, the rule is expected to contribute to regulatory stability in the license renewal process.

- Issued a final rule on decommissioning of nuclear power reactors (10 CFR Part 50). This final rule amends the Commission's regulations on the decommissioning procedures that lead to the termination of an operating license for a nuclear power plant and release of the property for unrestricted use. The rule amendments also clarify ambiguities that have arisen in the past and codify practices that have been used for other licensees on a case-by-case basis. As adopted, the provisions permit licensees greater flexibility in making financial decisions in decommissioning and reduce the regulatory burden. By eliminating the requirement for submittal of a preliminary decommissioning plan to NRC and the need to wait for NRC approval before undertaking any decommissioning activities, substantial cost savings for licensees and the NRC could be realized.

## Responsiveness to the Public's Safety Concerns

All allegations received by the NRC are initially considered to have a potential effect on health and safety, and the NRC reviews each allegation to determine its safety significance and the effect on health and safety. If the allegation deals with a technical issue and wrongdoing is not suspected, the agency's goal for closing the allegation is an average of 6 months from receipt. If the allegation pertains to wrongdoing by an NRC licensee, the agency's goal for closing is an average of 18 months from receipt. Allegations

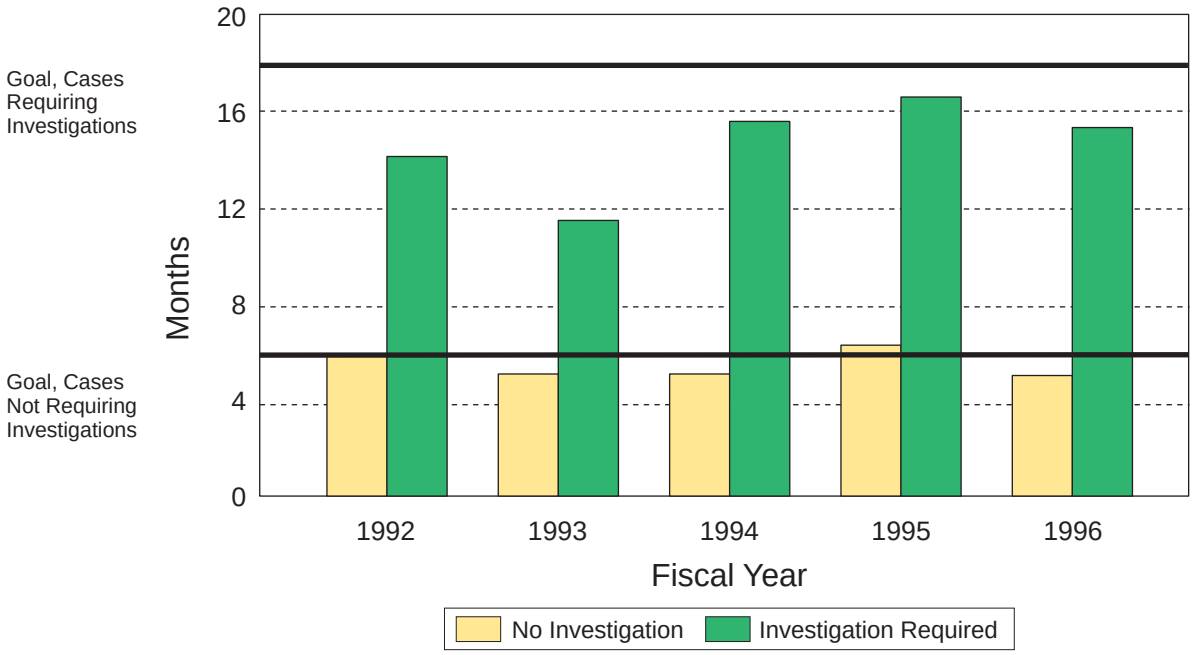
*(continued on page 22)*

*Control Room at a Nuclear Reactor*

requiring review outside the NRC (e.g., by the Department of Justice or Department of Labor) are not subject to these standards. The NRC's mean time to close allegations pertaining to a technical issue (and wrongdoing is not suspected) has generally continued to be less than 6 months. The NRC's mean time to close allegations pertaining to wrongdoing by an NRC licensee has continued to be less than 18 months, primarily because of an increased emphasis and narrowed focus on management of case inventory throughout the agency.

Figure 15 shows the mean time in months to close the two types of allegations for which standards have been established.

**Figure 15**
**Mean Time to Close Allegations***




* This chart reflects revised data for FYs 1992 to 1995. Mean time is reflected in the fiscal year in which an allegation is closed.

# Management Accountability

## The NRC's Management Control Program

An Executive Committee for Management Controls oversees the agency's management control program. In FY 1996, the Committee was chaired by the Executive Director for Operations, and Committee members were the Deputy Executive Directors, the Deputy Chief Financial Officer/Controller (DCFO/Controller), directors of major program and administrative offices, and a regional administrator.

Individual assurance statements from NRC office directors and regional administrators served as a primary basis for the Chairman's FY 1996 statement of assurance on management controls. These individual statements were based on various sources, including the managers' knowledge of day-to-day operations and existing controls, program reviews and other management evaluations, Office of the Inspector General (OIG) reports, reviews of financial management systems, risk assessments, and management control reviews.

Each year, regional administrators and directors of offices with the highest risk with respect to programmatic and administrative activities submit an annual management control plan to the Chairman of the Executive Committee for Management Controls. These plans, combined with the individual assurance statements, provide the framework for monitoring and improving the agency's management controls on an ongoing basis.

### *Status of Management Controls and Report on Material Weaknesses and Non-Conformances*

The NRC evaluated its management control and financial management systems for the fiscal year ending September 30, 1996. This evaluation provides reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved in FY 1996. The NRC has no material weaknesses in its programs or administrative activities and no material non-conformances with government-wide standards in its financial management systems.

The NRC reported no material weaknesses in FYs 1994, 1995, and 1996. Two material weaknesses were reported in 1993, and five material weaknesses were reported in the years before FY 1993. All of these material weaknesses have been corrected. No material non-conformances in financial systems have ever been reported by the NRC.

### *Financial Management Systems*

The NRC has six financial management systems: the Federal Financial System, Payroll System, Personal Property PC System, License Fee Bill Generator System, Allotment Financial Plan System, and Budget Formulation System. The Chairman's statement of assurance with respect to the agency's financial management systems is supported by management evaluations and General Accounting Office and OIG reviews. Additionally, the OIG performs an annual audit of the agency's financial statement. This audit includes testing of transactional data in the NRC's financial management systems and general ledger account balances. The OIG also reviews policies and procedures relevant to the internal control structure. The OIG issued an unqualified audit opinion on the NRC's FY 1996 financial statement. The OIG identified two reportable conditions that related to the NRC's internal control structure, one of which was carried over from prior years' audits. These reportable conditions do not constitute material weaknesses or material non-conformances.

*(continued on page 24)*

The Federal Financial System (FFS) is a system that the NRC uses through an interagency agreement with the Department of the Treasury (Treasury). This system is reviewed annually by Treasury's Financial Management Service (FMS) for its client agencies that utilize the system. The results of this year's annual review provided reasonable assurance that FFS, as operated by FMS for NRC, conforms to the principles, standards, and related requirements prescribed by the Comptroller General, except for the inability to demonstrate data recovery and backup capability of FFS in the event of a disaster, which was noted as a material non-conformance. Additional disk storage has been installed at the designated backup site with limited testing of the funds control application. FMS plans to test the FFS application at the designated backup site during FY 1997. This non-conformance is beyond the control of NRC and we understand FMS plans to eliminate the deficiency by the end of FY 1997.

## Management Decisions and Final Actions on OIG Audit Recommendations

The agency has established and continues to maintain an excellent record in resolving and implementing open audit recommendations presented in OIG reports. Section 5(b) of the Inspector General Act of 1978, as amended, requires the Chairman to report on management decisions and final actions taken on OIG audit recommendations. Table 2 gives the dollar value

**Table 2**
**Management Report on Office of Inspector General Audits With Disallowed Costs**

For the Period October 1, 1995 - September 30, 1996

| Category | Number of Audit Reports | Questioned Costs ($) | Unsupported Costs ($) |
|---|---|---|---|
| A. Audit reports with management decisions on which final action had not been taken at the beginning of this reporting period | 0[1] | $ 0 | $ 0 |
| B. Audit reports on which management decisions were made during this reporting period | 12 | $280,621 | $0 |
| C. Audit reports on which final action was taken during this reporting period | 2 | $ 27,702 | $0 |
| (i) Disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise | 2 | $ 27,702 | $0 |
| (ii) Disallowed costs that were written off by management | 0 | $0 | $0 |
| D. Audit reports on which no final action had been taken by the end of this reporting period | 10 | $252,919 | $0 |

[1] Adjustment made as a result of identification of a mathematical error in an audit report listed as having no final action at the end of the last reporting period resulted in no questioned costs for that contract; and therefore no actions are carried over to this report.

of disallowed costs determined through contract audits conducted by the Defense Contract Audit Agencys (DCAA). "Questioned Costs" are those costs that are questioned as to whether they are allowable. "Unsupported Costs" represent costs challenged because of a lack of adequate supporting data. Because of the sensitivity of contractual negotiations, details of these contract audits are not furnished as part of this report. Note that the Department of Defense also reports the cost savings resulting from DCAA audits.

Table 3 gives the dollar value of funds that audits showed could be put to better use. As of September 30, 1996, there were no outstanding audits recommending that funds be put to better use. Four reports containing five recommendations are more than a year old and are described in the section on the next page titled "Management Decisions Not Implemented Within One Year."

*(continued on page 26)*

## Table 3
## Management Report on Office of Inspector General Audits with Recommendations That Funds Be Put to Better Use

For the Period October 1, 1995, through September 30, 1996

| Category | Number of Audit Reports | Recommendations that funds be put to better use by management agreed to in a management decision ($) |
|---|---|---|
| A. Audit reports on which final action had not been taken by the beginning of this reporting period | 0 | $ 0 |
| B. Audit reports on which management decisions were made during this reporting period | 0 | $0 |
| C. Audit reports on which final action was taken during this reporting period | 1 | $214,598 |
| (i) Recommendations that were actually completed | 1 | $214,598 |
| (ii) Recommendations that management subsequently concluded should not or could not be implemented or completed | 0 | $0 |
| D. Audit reports on which no final action had been taken by the end of this reporting period | 0 | $0 |

## *Management Decisions Not Implemented Within One Year*

Management decisions were made before September 1995 for the OIG audit reports discussed in the following paragraphs, but as of September 30, 1996, NRC had not taken final action on some of the issues in the reports. The OIG did not recommend that funds be put to better use for any of these reports.

**NRC Needs To Provide Strong Direction for the Licensing Support System, March 17, 1995**

The Nuclear Waste Policy Act of 1982 requires that NRC approve or disapprove the construction of a high-level nuclear waste repository within 3 to 4 years of receiving a DOE construction license application. To meet this deadline, NRC enacted a rule requiring the development of an electronic information management system to reduce the time needed for discovery during the license hearing process. The rule requires that DOE design and develop the system and that NRC operate and maintain it.

The OIG reported that the program had stalled for the past 5 years for several reasons. Many of the delays were attributed to an inadequate system definition and agreement on the roles and responsibilities of DOE and NRC. As a result, the OIG recommended that NRC obtain a formal commitment from DOE in the form of an Interagency Agreement or Memorandum of Understanding (MOU) on key aspects of the Licensing Support System (LSS).

In response to the OIG report, the EDO appointed a senior management team to reevaluate the purpose of and need for the LSS, and to address the issues affecting the LSS program. Due to Congressional budget action related to DOE's high-level nuclear waste program, there was no resumption of any LSS activities and all of DOE's LSS-related activities have been delayed, including the finalization of an MOU with DOE.

The EDO has provided an action plan to the Commission to address outstanding LSS issues. Based on the Commission's response to this plan, the LSS senior management team will submit a final report to the Commission.

**Inspector Training Program: Improved Coordination and Communication Needed, August 4, 1995**

In order to establish effective coordination, communication and accountability among NRC offices and management regarding inspector training needs, requirements, and oversight, the OIG recommended that the EDO evaluate the merits of an integrated schedule or other measure to provide NRC offices with early notice of upcoming inspector training requirements. The NRC has determined that the current system does not meet the needs of the agency and that the system needs to be totally redesigned. The new system is scheduled for implementation by December 1998.

**Review of NRC Management of Reporting Requirements Under 10 CFR Part 21, November 30, 1990**

OIG made five recommendations concerning NRC's management of reporting requirements under 10 CFR Part 21. NRC implemented four of the five recommendations. The final item involved compliance with 10 CFR Part 21 by nonreactor licensees.

Part 21 establishes procedures and requirements to ensure that licensees notify the Commission of (1) equipment defects which could create a substantial safety hazard and (2) failures to comply with regulatory requirements relating to substantial safety hazards. The OIG recommended that the Commission either develop a program to implement Part 21 for nonreactor licensees or revise Part 21 to exclude nonreactor licensees from its scope if the program is not applicable to them. The NRC's Office of the General Counsel subsequently determined that Part 21 requirements are applicable to NRC nonreactor licensees but not to Agreement State licensees.

On June 17, 1991, NRC reminded all of its NRC materials licensees of the applicability of Part 21 reporting requirements (NRC Information Notice No. 91-39: Compliance With 10 CFR Part 21, "Reporting of Defects and Noncompliance"). The NRC also considered a rulemaking to address (1) whether certain types of materials licensees can or should be exempted from the provisions of Part 21 because their operations have no potential to result in a significant safety hazard and (2) whether Part 21 type reporting requirements should be repromulgated under the Atomic Energy Act and then made a matter of compatibility for the Agreement States. (Regulations promulgated under the Energy Reorganization Act, as is Part 21, cannot be made matters of Agreement State compatibility; this is only possible for regulations promulgated under the Atomic Energy Act). With regard to item 1, the NRC needed to consider whether continuing to subject all NRC materials licensees to Part 21 notification requirements is cost effective or necessary for adequate protection of public health and safety. With regard to item 2, NRC needed to consider the aspect of consistency in reporting between NRC and Agreement State licensees.

NRC considered several options to address this issue and concluded that the NRC resources needed to revise Part 21, in addition to the Agreement State and licensee resources needed to implement any changes to Part 21, would outweigh the benefit of reducing the number of affected NRC materials licensees or the potential safety benefit from imposing the regulation on Agreement States. In a March 1996 Commission Paper, the EDO informed the Commissioners of the NRC staff's intent not to proceed with rulemaking on 10 CFR Part 21 regarding reporting requirements for materials licensees. In a staff requirements memorandum of April 12, 1996, the Secretary of the Commission informed the EDO that the Commission did not object to the NRC staff's plans. The OIG has concurred with the agency's decision and closed its recommendation.

**NRC's Policies and Procedures for Deferring Materials Inspections and Verifying Licensee Assertions, October 26, 1992**

In 1992, OIG investigated an allegation that an NRC regional office had conducted an inadequate inspection and mishandled an allegation concerning a materials licensee. Because of that investigation, OIG initiated a follow-up audit to examine programmatic issues related to actions taken by regional offices. OIG concluded that NRC's policies and procedures for deferring materials inspections and verifying licensee assertions needed improvement. The report made four recommendations. All four recommendations have been addressed. The final recommendation was addressed with the approval and implementation of the updated management directive on "Management of Allegations." This management directive, which was issued on May 1, 1996, incorporates the topic of verifying licensee assertions.

**General Ledger Controls, March 15, 1993**

See the OIG audit of the FY 1996 Financial Statement (page 41) for the status of the outstanding recommendation that the payroll system must be integrated with the general ledger and possess labor distribution capabilities.

**Review of Funds Management, September 23, 1994**

The OIG reviewed the agency's funds management practices and specifically examined NRC's unobligated budget carryover, advance procurement planning, allottee financial plans, and fund obligation patterns. The audit report disclosed that although NRC's funds management practices generally complied with established policies and procedures, the agency's level of carryover and unliquidated obligations had increased. The OIG offered three recommendations to improve funds management. Action on one recommendation, to hold allottees more accountable, remains outstanding, and the other two recommendations, expanding the use of an existing management

*(continued on page 28)*

information system and improving the advance procurement process, have been completed.

The agency's Budget Execution Report (BER), which is provided to agency managers monthly and to the Commission quarterly, focuses on the financial performance of the agency as a whole as well as on the individual allowance holders. The BER contains performance parameters such as commitment, obligation, and expenditure rates, months of available funding, and the amounts and trends in unliquidated obligations. This information is issued throughout the year to monitor financial performance and as input in annual performance appraisals. A draft management directive, which provides guidance on good financial management, establishes performance measures for successful financial management, and describes methods to be used for managing financial resources within the agency, was issued for comment to agency allowance holders in December 1996; the directive will be issued in FY 1997.

## Debt Collection

As shown in Figure 16, the NRC has reduced its delinquent debt since FY 1993. The agency has accomplished a steady decline in delinquent debt through a concerted debt management strategy. The strategy includes activities such as license suspensions; referral to the Department of Treasury's Debt Management Services through a cross-servicing arrangement; credit reporting; and referral to the Department of Justice for enforced collection.

## Prompt Payment

On-time payments for amounts subject to the Prompt Payment Act have increased as shown in Figure 17. The amount of interest penalties incurred have decreased from $19,000 in FY 1993 to approximately $4,500 in FY 1996.

**Figure 16**
**Delinquent Debt**

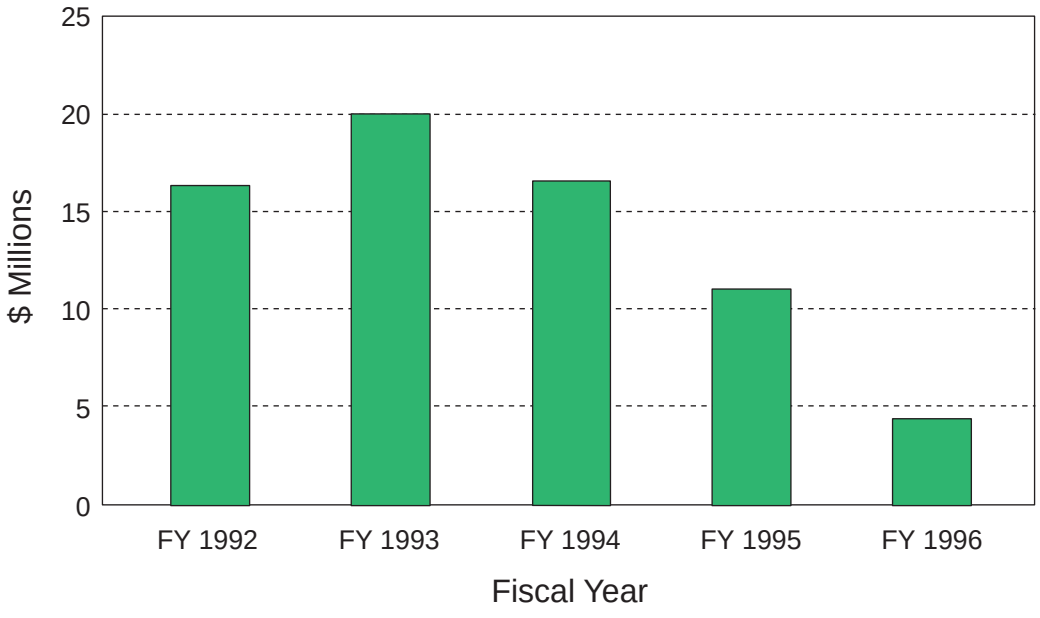
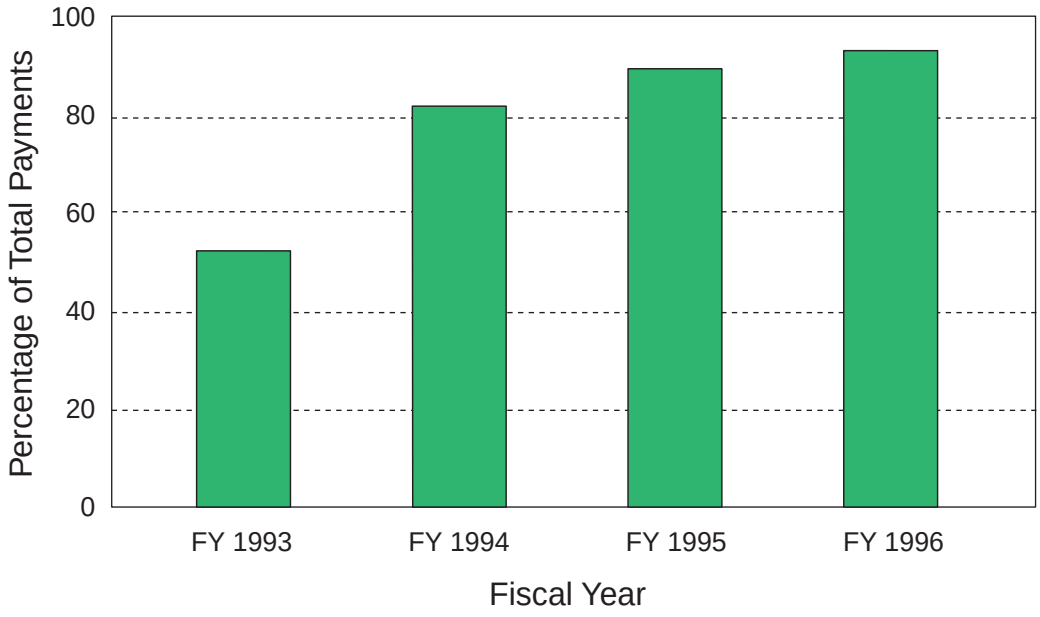


**Figure 17**
**Prompt Payment**




## Civil Penalties

The NRC imposes enforcement sanctions to encourage prompt identification and comprehensive correction of violations and as a deterrent to emphasize the importance of compliance with requirements. One enforcement sanction is the imposition of a civil penalty. Table 4 shows the amount of civil penalties assessed and the amount collected in FYs 1992 through 1996, distributed according to the year in which the civil penalty was collected. The amount of each civil penalty assessed reflects the amount that the NRC ultimately decides is appropriate in each case through its enforcement or hearing process.

**Table 4**
**Fiscal Year Civil Penalties Collected**
**Versus Fiscal Year Penalty Dollars Assessed**

| Fiscal Year | Assessed | Collected | Percent Collected |
|---|---|---|---|
| 1992 | $4,630,815[1] | $4,610,815 | 99.57 |
| 1993 | $4,180,875[2] | $4,178,557[3] | 99.94 |
| 1994 | $3,867,675 | $3,867,675 | 100 |
| 1995 | $2,289,285 | $2,289,285 | 100 |
| 1996 | $3,106,000 | $3,014,000[4] | 97.04 |

[1] This amount includes $20,000 for two cases that were withdrawn after further consideration following the licensees' responses.

[2] In some cases, the amount imposed has been changed to reflect a settlement.

[3] This amount reflects the total amount assessed for a case for which an agreement was reached to pay in full, but in installments. The licensee has since made full payment.

[4] This amount reflects payments that have been made in two cases where installment payments are being made.

# FY 1996 Audited Financial Statement

## Limitations of Principal Statements

The principal statements have been prepared to report the financial position and results of operations of the NRC, pursuant to the requirements of the Chief Financial Officers Act of 1990. These statements have been prepared from the books and records of the NRC in accordance with the formats prescribed by the Office of Management and Budget. However, these statements differ from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The principal statements should be read with the realization that they are for a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Other limitations are included in the footnotes to the principal statements.

The NRC's FY 1996 financial statement was audited by the NRC's Office of Inspector General (OIG). This section contains the results of the OIG audit, including the financial statement.

# RESULTS OF THE AUDIT OF
# U.S. NUCLEAR REGULATORY COMMISSION'S
# FISCAL YEAR 1996 FINANCIAL STATEMENTS

## OIG/96A-19 March 6, 1997

**UNITED STATES**
**NUCLEAR REGULATORY COMMISSION**
**WASHINGTON, DC 20555-0001**

March 6, 1996

MEMORANDUM TO: Chairman Jackson
Commissioner Rogers
Commissioner Dicus
Commissioner McGaffigan
Commissioner Diaz

/Hubert T. Bell

FROM: Hubert T. Bell
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF U.S. NUCLEAR REGULATORY COMMISSION'S FISCAL YEAR 1996 FINANCIAL STATEMENTS

Attached is the Office of the Inspector General's (OIG) audit report of the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 1996 financial statements. The Chief Financial Officers (CFO) Act requires OIG to annually audit the Principal Financial Statements of the NRC. The audit was performed to form an opinion on the Principal Financial Statements. The report contains the (1) principal statements, (2) our opinions on the principal statements and management's assertions about the effectiveness of internal controls, and (3) our report on NRC's compliance with laws and regulations. Written comments were obtained from the Acting CFO and are included as an appendix to our report.

*Audit Results*

On NRC's Fiscal Year 1996 Principal Financial Statements, we issued an unqualified opinion on the Statement of Financial Position, and the Statements of Operations, Cash Flows, and Budget and Actual Expenses.

In our opinion on management's assertions about the effectiveness of internal controls, we identified one new reportable condition and one carried over from prior fiscal years. The new condition concerns NRC's procedures for identifying capitalized software. The prior-year condition concerns NRC's lack of a system for reporting labor costs by program. Based on corrective actions taken in FY 1996, we closed two reportable conditions identified in our FY 1995 report. Those conditions related to (1) internal controls for NRC's fee recovery system, and (2) lack of Department of Energy (DOE) audit assurance for NRC funds spent at DOE labs. We have, however, retained the DOE issue as a *Matter of Emphasis* in our report.

***(continued on page 36)***

Our report on NRC's compliance with laws and regulations states that with respect to the items tested, NRC was in compliance. Based on actions taken in FY 1996, we closed the compliance finding related to NRC's fee recovery system.

Under the Federal Manager's Financial Integrity Act, NRC must annually evaluate its internal controls processes. As of the date of our report, NRC management had completed its evaluation of financial controls, but was still evaluating a programmatic control issue.

On February 27, 1997, the Acting CFO responded to our draft report dated February 19, 1997. We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

Attachments: As stated

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## INSPECTOR GENERAL'S REPORT

In our audits of the U.S. Nuclear Regulatory Commission (NRC) for the years ended September 30, 1996 and 1995, as required by the *Chief Financial Officers' (CFO) Act of 1990*, we found the principal financial statements were reliable in all material respects. Management fairly stated that the internal control structure in place at September 30, 1996 was effective in (1) safeguarding assets from material loss, (2) assuring material compliance with laws and regulations governing the use of budgetary authority and with other relevant laws and regulations, and (3) assuring that there were no material misstatements in the Principal Statements. We found no reportable noncompliance with laws and regulations for the items tested.

The following sections outline our conclusions and discuss the Overview of the Reporting Entity and the scope of the audit.

### *OPINION ON PRINCIPAL STATEMENTS*

The principal statements, including the accompanying notes, present fairly in all material respects, in conformity with a comprehensive basis of accounting other than generally accepted accounting principles, as described in Note 1, NRC's:

- assets, liabilities, and net position;
- revenue, financing sources and expenses;
- cash flows; and
- budgetary resources and actual expenses.

### *INSPECTOR GENERAL'S REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF THE INTERNAL CONTROL STRUCTURE*

The Office of Inspector General (OIG) evaluated management's assertion that the NRC maintained an effective internal control structure designed to:

- safeguard assets against loss from unauthorized acquisition, use or disposition;

- assure the execution of transactions in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the Principal Statements or that are listed in the Office of Management and Budget (OMB) audit guidance and could have a material effect on the Principal Statements; and

- properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

NRC management fairly stated that internal controls in place on September 30, 1996 provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the

*(continued on page 40)*

Principal Statements would be prevented and detected on a timely basis. Management made this assertion based upon criteria established by the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)* and *OMB Circular A-123, Management Accountability and Control*.

## REPORTABLE CONDITIONS AND AUDIT FOLLOW-UP

OIG noted two matters involving the internal control structure and its operation that are considered reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. Although not material in relation to the Principal Statements, these reportable conditions involve deficiencies in the internal control structure that, in our judgment, could adversely affect the NRC's ability to ensure that it meets the objectives of internal controls. Management considered these conditions in making their assertion on the effectiveness of the internal controls.

### CURRENT YEAR

The matters listed below involve the design or operation of the internal control structure and warrant disclosure as reportable conditions. None of the reportable conditions noted are classifiable as material weaknesses.

#### Capitalization Procedures for Automatic Data Processing (ADP) Software Need Improvement

Our audit disclosed a need for improvements to software capitalization procedures. This latest finding represents a continuing OIG concern about NRC's financial reporting of property. While OIG has raised and the NRC has resolved similar issues over the past few years, we believe the current issue indicates a continuing concern and must be identified as a reportable condition.

The Office of the Controller's (OC) current procedure for accounting for capitalized ADP software was issued on April 26, 1996. This procedure provides guidance on how relevant information should be captured within the Division of Accounting and Finance (DAF). However, it does not identify specific responsibility for making capitalization decisions or for oversight of those decisions. OC advised us that they receive software data from NRC offices for review and possible capitalization, and that a contractor has primary responsibility for this function.

The capitalization procedure only vaguely infers that a contractor performs the review function. One of the procedural steps states, "The documentation for additions and deletions is independently reviewed by DAF on a monthly basis to ensure accuracy and completeness of the data." To establish adequate accountability, we believe the duties and responsibilities of the specific parties in the process must be stated.

At our initiation, OC asked NRC offices to examine a listing of capitalized software to determine accuracy and completeness. The request resulted in several additions and deletions[1] to the listing. Most additions were previously reported to OC but were not included as capitalized software. These additions totaled about one million dollars. Subsequent OIG inquiry disclosed that an OC contractor incorrectly decided against capitalizing these items. When a contractor has significant decision-making responsibilities, it is imperative that OC provide sufficient oversight to ensure that the appropriate decisions are made.

### *Recommendation*

To bring greater discipline and accountability to the software capitalization process, we recommend that the Acting CFO:

1. Revise the software capitalization procedure to specify the responsible NRC group, position or contractor for making capitalization decisions and oversight.

2. Reemphasize the need for adequate oversight of contractor decisions.

## Payroll System Must Be Integrated With The General Ledger and Possess Labor Distribution Capabilities

This issue is a carryover from the FY 1995 audit. NRC's accounting system does not include all of the necessary general accounting controls to produce timely and accurate financial information needed to prepare complete financial reports as required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*. The principal weaknesses and issues that remain are:

- the compatibility and integration of the NRC general ledger and subsystems used by NRC for payroll.

- heavy reliance on manual inputs due to the use of incompatible subsystems.

NRC is in the process of replacing its payroll system with a new subsystem that is integrated into the Federal Financial System (FFS) and will eventually provide labor distribution information. When the new payroll system is fully implemented, individual payroll transactions will be generated for FFS update within the program receiving the direct benefit of the expenditure. NRC continues to reconcile the non-compatible payroll subsystem with the FFS general ledger on a monthly and year end basis.

[1] Deletions were primarily the result of NRC's recent decision to expense rather than capitalize software related to analytical codes and mathematical models.

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### *Recommendation*

None, as NRC is in the process of replacing its payroll system.

#### PRIOR YEAR - RESOLVED

**1. Fee Recovery System Lacks Internal Control**

Based on actions taken in FY 1996, we are satisfied that OC has addressed the root causes for this problem. Further, OC is about to undertake a comprehensive review of the fee billing process. The corresponding condition reported in the compliance report for FY 1995 is resolved, as well.

**2. Lack Of U. S. Department of Energy (DOE) Audit Assurance**

During FY 1995, NRC took aggressive action to resolve this issue with DOE. NRC concluded its effort to implement our recommendations without success. While DOE did not believe a revision to the NRC/DOE Memorandum of Understanding was needed, DOE forwarded reports addressing internal controls and costs incurred at the DOE labs. However, these reports appeared to be of questionable value in assessing the proper use of NRC funds. In the interests of full disclosure, we will continue to report this issue as a *Matter of Emphasis* in this report.

## *REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS*

Our tests of compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under *Government Auditing Standards* or OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

## *MATTER OF EMPHASIS*

NRC's principal statements include reimbursable expenses of the DOE's National Laboratories. For Fiscal Year 1996 and 1995, NRC's Statements of Operations included about $89 and $110 million, respectively, of reimbursed expenses, which represent approximately 17% and 20%, respectively, of total expenses. Our audits included testing of these expenses and financing sources for compliance with laws and regulations within NRC. The work placed with DOE is under the auspices of a Memorandum of Understanding between NRC and DOE. The examination of DOE National Laboratories for compliance with laws and regulations is DOE's responsibility. This responsibility was further clarified by a memorandum of the General Accounting Office's Assistant General Counsel, dated March 6, 1995, where he opined that "...DOE's inability to assure that its contractors' costs [National Laboratories] are legal and proper...does not compel a conclusion that NRC has failed to comply with laws and regulations." DOE also has the cognizant responsibility to assure audit resolution and should provide the results of its audits to NRC.

## CONSISTENCY OF OTHER INFORMATION

The overview of the NRC, program performance, and other supplemental financial and management information sections contain a wide range of data, some of which is not directly related to the Principal Statements. We do not express an opinion on this information. We have, however, compared this information for consistency with the Principal Statements and discussed the measurement and presentation methods with NRC management. Based on this limited effort, we found no material inconsistencies with the Principal Statements or nonconformance with OMB guidance.

## OBJECTIVES, SCOPE AND METHODOLOGY

NRC management is responsible for (1) preparing the Principal Statements in conformity with the basis of accounting described in Note 1, (2) establishing, maintaining, and assessing the internal control structure to provide reasonable assurance that the broad control objectives of FMFIA are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the Principal Statements are free of material misstatement and presented fairly, in all material respects, in conformity with the basis of accounting described in Note 1, and (2) management's assertion about the effectiveness of the internal control structure is fairly stated, in all material respects, based upon criteria established by FMFIA and OMB Circular A-123, *Management Accountability and Control*. As of the date of our report, NRC management had completed its evaluation of financial controls, but was still evaluating a programmatic control issue. We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information in this annual financial statement. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures made in the Principal Statements;
- assessed the accounting principles used and significant estimates made by management;
- obtained an understanding of the internal control structure related to safeguarding of assets, compliance with laws and regulations including execution of transactions in accordance with budget authority, financial reporting, and performance measures reported in the annual financial statements;
- assessed control risk and tested relevant internal controls over safeguarding of assets, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls;
- tested compliance with selected provisions of the following laws and regulations: Anti-Deficiency Act (Title 31 U.S.C.), National Defense Appropriation Act (PL 101-510),

*(continued on page 44)*

Omnibus Budgetary Reconciliation Act of 1990, Debt Collection Act of 1982 (PL 97-365), Prompt Pay Act (PL 97-177), Civil Service Retirement Act, Civil Service Reform Act (PL 97-454), Federal Managers' Financial Integrity Act (PL 97-255), CFO's Act (PL 101-576), Budget and Accounting Act;

- reviewed compliance with the process required by FMFIA for evaluating and reporting on internal control and accounting systems; and

- assessed the design of selected performance measure controls and whether they had been placed in operation.

We did not evaluate all internal controls relevant to operating objectives as broadly as defined in FMFIA, such as those controls for preparing statistical reports and those for ensuring efficient and effective operations. We limited our internal control tests to those necessary to achieve the objective described in our opinion on management's assertion about the effectiveness of internal controls. Because of inherent limitation in any internal control structure, losses, noncompliance, or misstatements may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure over financial reporting to future periods is subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We performed our work in accordance with Government Auditing Standards and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*.

This report is intended solely for the use of management of the U. S. Nuclear Regulatory Commission. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

## AGENCY COMMENTS

On February 27, 1997, the Acting CFO responded to our draft report and addressed the two recommendations to improve the procedures for capitalizing ADP software. We requested and received additional information about the Acting CFO's corrective actions on March 3, 1997. Based on our review of this information, we are satisfied that the actions taken meet the intent of our recommendations. We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

# PRINCIPAL STATEMENTS
# FOR FISCAL YEAR 1996

## STATEMENT OF FINANCIAL POSITION
## September 30, 1996 and 1995

| ASSETS | 1996 | Restated 1995 |
|---|---|---|
| **Entity Assets:** | | |
| ***Intragovernmental assets:*** | | |
| Fund balances with Treasury (Note 2) | $210,748,055 | $258,602,386 |
| Accounts receivable, net (Note 3) | 5,822,652 | 8,231,231 |
| Advances and prepayments (Note 4) | 4,948,524 | 2,466,180 |
| ***Governmental assets:*** | | |
| Accounts receivable, net (Note 3) | 24,079,551 | 28,310,335 |
| Advances and prepayments (Note 4) | 472,592 | 695,961 |
| ***Property and equipment, net (Note 5)*** | 38,189,091 | 37,175,412 |
| **Total entity assets** | 284,260,465 | 335,481,505 |
| **Non-Entity Assets:** | | |
| ***Governmental assets:*** | | |
| Accounts receivable, net (Note 3) | 312,470 | 692,881 |
| **Total non-entity assets** | 312,470 | 692,881 |
| **Total assets** | **$284,572,935** | **$336,174,386** |

*(continued on page 48)*

The accompanying notes to the principal statements
are an integral part of this statement.

## STATEMENT OF FINANCIAL POSITION (Continued)
## September 30, 1996 and 1995

| LIABILITIES | 1996 | Restated 1995 |
|---|---|---|
| **Liabilities Covered by Budgetary Resources:** | | |
| ***Intragovernmental liabilities:*** | | |
| Accounts payable and advances (Note 6) | $11,805,497 | $12,989,462 |
| Other intragovernmental liabilities (Note 8) | 26,519,644 | 41,532,847 |
| ***Governmental liabilities:*** | | |
| Accounts payable (Note 6) | 21,229,287 | 22,515,321 |
| Other governmental liabilities (Note 8) | 7,143,659 | 8,324,101 |
| Accrued payroll and benefits (Note 7) | 11,527,847 | 10,276,907 |
| **Total liabilities covered by budgetary resources** | 78,225,934 | 95,638,638 |
| **Liabilities Not Covered by Budgetary Resources:** | | |
| **Governmental liabilities:** | | |
| Other governmental liabilities (Note 9) | 32,710,987 | 31,052,458 |
| **Total liabilities not covered by budgetary resources** | 32,710,987 | 31,052,458 |
| **Total liabilities** | 110,936,921 | 126,691,096 |
| **NET POSITION** | | |
| **Balance (Note 11):** | | |
| Unexpended appropriations | 168,157,910 | 203,360,336 |
| Invested capital | 38,189,091 | 37,175,412 |
| Future funding requirements | (32,710,987) | (31,052,458) |
| **Total net position** | 173,636,014 | 209,483,290 |
| **Total liabilities and net position** | **$284,572,935** | **$336,174,386** |

The accompanying notes to the principal statements
are an integral part of this statement.

## STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
## for the years ended September 30, 1996 and 1995

| | 1996 | Restated 1995 |
|---|---|---|
| ***REVENUES AND FINANCING SOURCES*** | | |
| Appropriated capital used (Note 12) | $ 52,837,295 | $ 35,558,585 |
| Other revenues and financing sources (Note 13) | 452,184,128 | 492,783,452 |
| Excess current year receipts of fees over billings | 14,633,020 | 23,015,654 |
| Less: Receipts transferred to the Treasury or other agencies | (2,925,845) | (3,518,733) |
| **Total revenues and financing sources** | 516,728,598 | 547,838,958 |
| ***EXPENSES*** | | |
| **Program Expenses** (Note 14) | | |
| Salaries and expenses | 505,810,836 | 533,794,349 |
| Office of Inspector General | 4,013,899 | 4,557,825 |
| **Total program expenses** | 509,824,735 | 538,352,174 |
| Depreciation (Note 5) | 8,540,608 | 9,129,575 |
| Interest | 4,683 | 13,143 |
| Other expenses (Note 16) | 17,101 | 287,045 |
| **Total expenses** | 518,387,127 | 547,781,937 |
| **Excess or (Shortage) of revenues and financing sources over total expenses** (Note 17) | **$ (1,658,529)** | **$ 57,021** |
| **Net position, ending balance** | **$209,483,290** | **$219,540,854** |
| Prior period adjustment (Note 19) | - | (5,456,000) |
| Net position, beginning balance, as restated | 209,483,290 | 214,084,854 |
| Excess (Shortage) of revenues and financing sources over expenses | (1,658,529) | 57,021 |
| Plus non-operating changes (Note 18) | (34,188,747) | (4,658,585) |
| **Net position, ending balance** | **$173,636,014** | **$209,483,290** |

*(continued on page 50)*

The accompanying notes to the principal statements are an integral part of this statement.

## STATEMENT OF CASH FLOWS
## for the years ended September 30, 1996 and 1995

| | 1996 | Restated 1995 |
|---|---|---|
| ***CASH PROVIDED (USED) BY OPERATING ACTIVITIES*** | | |
| **Cash Provided:** | | |
| Fees for licensing and inspection and other services (Note 12) | $454,049,512 | $501,871,000 |
| Other operating cash provided | 8,450,358 | 16,852,614 |
| **Total cash provided** | 462,499,870 | 518,723,614 |
| **Cash Used:** | | |
| Personnel services and benefits | (259,816,269) | (266,399,073) |
| Travel and transportation | (16,275,698) | (16,238,339) |
| Rent, communications and utilities | (26,342,185) | (25,804,325) |
| Printing and reproduction | (1,554,538) | (2,132,047) |
| Other contractual services | (193,678,520) | (224,466,951) |
| Supplies and materials | (11,162,708) | (11,372,953) |
| Insurance claims and indemnities | (98,271) | (131,742) |
| Grants, subsidies and contributions | (1,527,452) | (1,378,879) |
| Other operating cash used | (6,867,038) | (5,406,669) |
| **Total cash used** | (517,322,679) | (553,330,978) |
| **Net cash provided (used) by operating activities** | (54,822,809) | (34,607,364) |
| **CASH PROVIDED (USED) BY INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (11,680,069) | (7,101,108) |
| **Net cash used by investing activities** | (11,680,069) | (7,101,108) |
| **CASH PROVIDED (USED) BY FINANCING ACTIVITIES** | | |
| Appropriations | 18,536,875 | 22,000,000 |
| Add: Transfers of cash from others | 111,672 | 8,900,000 |
| **Net appropriations** | 18,648,547 | 30,900,000 |
| Fee collections not used to offset current year's appropriation | - | 7,218,611 |
| **Net cash provided (used) by financing activities** | **18,648,547** | **38,118,611** |

The accompanying notes to the principal statements are an integral part of this statement.

## STATEMENT OF CASH FLOWS (Continued)
## for the years ended September 30, 1996 and 1995

| | 1996 | Restated 1995 |
|---|---|---|
| **Net cash provided (used) by operating, investing and financing activities** | (47,854,331) | (3,589,861) |
| **Fund balances with Treasury, beginning** | 258,602,386 | 262,192,247 |
| **Fund balances with Treasury, ending** | **$210,748,055** | **$258,602,386** |
| ***Reconciliation of Shortage of Revenues and Financing Sources Over Total Expenses*** | | |
| Excess or (Shortage) of Revenue and Financing Sources Over Total Expenses | $ (1,658,529) | $ 57,021 |
| Adjustments to Reconcile Shortage of Revenues and Financing Sources Over Total Expenses to Net Cash Provided by Operating Activities: | | |
| Appropriated Capital Used | (52,837,295) | (35,558,585) |
| Decrease (Increase) in Accounts Receivable | (2,823,343) | (254,047) |
| Decrease (Increase) in Other Assets | (2,258,975) | 370,145 |
| Increase (Decrease) in Accounts Payable | (887,331) | (6,227,518) |
| Increase (Decrease) in Other Liabilities | (6,682,254) | (3,980,949) |
| Depreciation and Amortization | 8,540,608 | 9,129,575 |
| Other Unfunded Expenses | 1,658,529 | (57,021) |
| Other Adjustments | 2,125,781 | 1,914,015 |
| **Total adjustments** | (53,164,280) | (34,664,385) |
| ***Net Cash Provided (Used) by Operating Activities*** | $(54,822,809) | $(34,607,364) |

*(continued on page 52)*

The accompanying notes to the principal statements are an integral part of this statement.

## STATEMENT OF BUDGET AND ACTUAL EXPENSES
## for the years ended September 30, 1996 and 1995

| Program Name | Budget Resources | Budget Obligations Direct | Budget Obligations Reimbursement | Actual 1996 Expenses | Restated Actual 1995 Expenses |
|---|---|---|---|---|---|
| Salaries and expenses | $559,321,035 | $512,113,674 | $7,860,985 | $514,373,228 | $543,224,112 |
| Office of Inspector General | 6,068,881 | 4,319,768 | 88,156 | 4,013,899 | 4,557,825 |
| | $565,389,916 | $516,433,442 | $7,949,141 | $518,387,127 | $547,781,937 |

***Budget Reconciliation***

| | | |
|---|---|---|
| **Total expenses** | $518,387,127 | $547,781,937 |
| Add: | | |
| Capital acquisition | 11,680,069 | 7,101,108 |
| Other expended budget authority | (2,105,885) | (1,914,015) |
| Less: Expenses not covered by available budgetary resources: | | |
| Depreciation | (8,540,608) | (9,129,575) |
| Unfunded annual leave expense | (795,701) | (140,435) |
| Unfunded Workers' Compensation expense | (862,828) | 197,456 |
| Accrued expenditures | 517,762,174 | 543,896,476 |
| Less reimbursements | (9,842,179) | (10,409,373) |
| **Accrued expenditures, direct** | $507,919,995 | $533,487,103 |

The accompanying notes to the principal statements
are an integral part of this statement.

## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***A. Basis of Presentation***

These principal statements were prepared to report the financial position and results of operations of the U.S. Nuclear Regulatory Commission (NRC) as required by the Chief Financial Officers Act of 1990. The principal statements were prepared from the books and records of NRC in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 94-01 and NRC accounting policies summarized in this note. These statements are therefore different from the financial reports, also prepared by NRC pursuant to OMB directives, which are used to monitor and control NRC's use of budgetary resources.

***B. Reporting Entity/Program Name***

NRC is an independent agency of the Federal Government created by the Energy Reorganization Act of 1974, as amended. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, and the Atomic Energy Act of 1954, as amended. NRC was created by the U.S. Congress to ensure adequate protection of the public health and safety, common defense and security, and the environment in the civilian use of nuclear materials in the United States.

NRC has two appropriations:

- 31X0200 - Salaries and Expenses
- 31X0300 - Office of Inspector General

The 31X0200 appropriation includes $11 million and $22 million for Fiscal Years 1996 and 1995, respectively, of funds transferred from the Department of Energy (DOE), Nuclear Waste Fund to NRC in accordance with the provisions of Public Law 104-46 and Public Law 103-316. Public Laws 104-134 and 104-19 rescinded $.7 million and $1.7 million from the fiscal year 1996 and 1995 NRC Salaries and Expenses Appropriation, respectively.

In addition, in Fiscal Years 1996 and 1995, $.5 million and $8.9 million, respectively, of the appropriation received by the U.S. Agency for International Development was transferred for the Nuclear Safety Assistance Program in Russia and the Ukraine which is under the control of NRC.

*(continued on page 54)*

## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

The accompanying financial statements of NRC include the accounts of all funds under NRC control.

### *C. Budgets and Budgetary Accounting*

For the past 22 years, Congress has enacted no-year appropriations which are available for obligation by NRC until expended. The Omnibus Budget Reconciliation Act (OBRA) of 1990 requires NRC to recover approximately 100 percent of its new budget authority, less the amount appropriated from Nuclear Waste Fund, by assessing fees. At the end of the fiscal year, NRC's appropriations are reduced by the amount of revenues collected during the fiscal year.

### *D. Basis of Accounting*

Transactions are recorded on both an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

### *E. Revenues and Other Financing Sources*

Licensing fees and fees for inspections and other services assessed in accordance with OBRA are recognized as other financing sources when earned.

For reporting purposes, appropriations are recognized as revenues (Appropriated Capital Used) at the time expenses are accrued. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations. The fees collected during 1996 include $8.1 million billed in fiscal year 1996 for services performed in previous years. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations (depreciation). Appropriated Capital Used does not include appropriations used to purchase capital items or expenses incurred but not yet funded by Congress, such as Workers' Compensation benefits and annual leave expenses. The differences between the accrual basis recognition of appropriations expended and the budgetary basis recognition of outlays are presented in the Statement of Budget and Actual Expenses.

Miscellaneous receipts collected by NRC are not available to NRC for obligation or expenditure. These receipts must be transferred to the U.S. Treasury when collected.

### *F. Funds with the Treasury and Cash*

NRC cash receipts and disbursements are processed by the U.S. Treasury. The Funds with the Treasury and Cash are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. Cash balances held outside the U.S. Treasury are not material.

### *G. Accounts Receivable, Net of Allowance*

The amounts due for receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

### *H. Advances*

NRC makes cash payments to other Federal agencies, employees, grantees, and contractors to provide for future NRC program expenditures. These advance payments are recorded as assets which are reduced when reports of expenditures are received by NRC or when accruals of cost estimates are made by NRC.

### *I. Property and Equipment*

The land and buildings in which NRC operates are provided by the General Services Administration (GSA), which charges NRC rent that approximates the commercial rental rates for similar properties.

Property with a cost of $50,000 or more per unit and a useful life of two years or more are capitalized at cost and depreciated. Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

Property is depreciated using the straight-line method over useful lives which range from 5 to 20 years.

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## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

### *J. Prepaid and Deferred Charges*

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and are recognized as expenditures/expenses when the related goods and services are received.

### *K. Liabilities*

Liabilities represent the amount of monies or other resources that are likely to be paid by NRC as the result of a transaction or event that has already occurred. However, no liability can be paid by NRC absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is no certainty that an appropriation will be enacted are classified as Liabilities not Covered by Budgetary Resources. Also, liabilities of NRC arising from sources other than contracts can be abrogated by the Government acting in its sovereign capacity.

### *L. Contingencies*

NRC is a party to various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. Based on the advice of legal counsel concerning contingencies, it is the opinion of NRC management that the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or results of operations of NRC.

### *M. Annual, Sick, and Other Leave*

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates.

Sick leave and other types of nonvested leave are expensed as taken.

### *N. Retirement Plans*

NRC employees hired after December 31, 1983, are automatically covered by the Federal Employees' Retirement System (FERS), which was implemented on January 1, 1987. Employees hired prior to that date could elect to join FERS or to remain in the Civil Service Retirement System (CSRS). Approximately 60 percent of NRC employees belong to CSRS and 40 percent belong to FERS. For employees in FERS, NRC withholds 0.8 percent of base pay earnings in addition to Federal Insurance Contribution Act and matches the with-

holding with a 11.4 percent contribution. The sum is transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, NRC withholds 7 percent of their base pay earnings. This withholding is matched by NRC and the sum of the withholding and the match is transferred to the CSRS.

On April 1, 1987, the Federal government initiated the Thrift Savings Plan (TSP) which is a retirement savings and investment plan for employees covered by either FERS or CSRS. For employees covered by FERS, NRC automatically contributes one percent of base pay to their account and matches contributions up to an additional four percent. The maximum percentage that an employee participating in FERS may contribute is 10 percent of base pay. Employees covered by CSRS may contribute up to five percent of their base pay, but there is no NRC matching of the contribution. The maximum amount that either FERS or CSRS employees may contribute to the plan in a calendar year is $9,500. The sum of the employee and NRC contributions is transferred to the Federal Retirement Thrift Investment Board.

NRC does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management.

### *O. Net Position*

NRC's net position comprises the following components:

1. Unexpended appropriations include the undelivered orders and unobligated balances of NRC's funds. All appropriations remain available for obligation until expended.

2. Invested capital represents U.S. Government resources invested in NRC's property and equipment. Increases to invested capital are recorded when assets are acquired with direct appropriations, and decreases are recorded as a result of the depreciation and disposition of capital assets.

3. Future funding requirements represent (a) accumulated annual leave earned but not taken as of the financial statement date and (b) actual and estimated future payments to be made for Workers Compensation pursuant to Federal Employees Compensation Act (FECA). The expense for these accruals is not funded from current appropriations, but rather will be funded from future appropriations and assessments.

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## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

***P. Department of Energy (DOE) Charges***

Financial transactions between DOE and NRC are fully automated through the U.S. Treasury's On-Line Payment and Collection (OPAC) System. The OPAC System allows the DOE to collect amounts due from NRC directly from NRC's account at Treasury for goods and/or services rendered. Project manager verification of goods and/or services received is subsequently accomplished through a system-generated voucher approval system. The vouchers are returned to the Division of Accounting and Finance documenting that the charges have been accepted. Annually, NRC makes approximately $89 million in payments to DOE in this manner for research conducted by the DOE National Laboratories.

***Q. Reclassifications***

Certain amounts for 1995 have been reclassified to conform with the 1996 presentation.

### NOTE 2. FUND BALANCES WITH TREASURY

Fund balances with Treasury consist of the following amounts as of September 30, 1996 and 1995:

| | 1996 | 1995 |
|---|---|---|
| Appropriated funds: | | |
| Obligated | $180,045,631 | $195,094,034 |
| Unobligated | 28,682,412 | 54,738,792 |
| | 208,728,043 | 249,832,826 |
| Other fund types | 2,020,012 | 8,769,560 |
| | $210,748,055 | $258,602,386 |

U.S. Government cash is handled on an overall consolidated basis by Treasury. "Funds with Treasury" represent NRC's right to draw on Treasury for allowable expenditures. All amounts are available to NRC for current use except for $5.6 million in fiscal year 1995 which related to fees collected which are held to offset subsequent years' appropriations. The obligated and unobligated balances exclude amounts related to unfilled customer orders.

## NOTE 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net is composed of the following amounts as of September 30, 1996, and 1995:

**Entity Assets**

**Intragovernmental** accounts receivable consists primarily of receivables and reimbursements due from other Federal agencies which were $5,822,652 and $8,231,231 at September 30, 1996, and 1995, respectively.

**Governmental** accounts receivable is comprised of the following amounts as of September 30, 1996 and 1995:

| **Governmental:** | **1996** | **1995** |
|---|---|---|
| Materials and facilities fees - billed | $ 3,532,779 | $ 6,982,690 |
| Materials and facilities - unbilled | 22,667,134 | 24,388,455 |
| Other | 103,295 | 132,035 |
| Total accounts receivable | 26,303,208 | 31,503,180 |
| Less: Allowance for uncollectible accounts | (2,223,657) | (3,192,845) |
| Accounts receivable, net | $24,079,551 | $28,310,335 |

Governmental accounts receivable represents primarily amounts due for fees assessed for licensing and inspections of nuclear facilities and radioactive materials and other services. In the year collected, the amounts will be used to offset NRC's appropriations.

**Non-Entity Assets**

**Governmental** accounts receivable, net, represents miscellaneous amounts due from the public ($312,470 and $692,881 at September 30, 1996, and 1995, respectively,) which when collected, must be transferred to the U.S. Treasury.

NRC's methodology to estimate the allowance for uncollectible accounts is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

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## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

### NOTE 4. ADVANCES AND PREPAYMENTS

Advances and prepayments as of September 30, 1996, and 1995, consist primarily of the following:

| | 1996 | 1995 |
|---|---|---|
| **Entity Assets** | | |
| **Intragovernmental:** | | |
| Advances - other Federal agencies | $4,948,524 | $2,466,180 |
| **Governmental:** | | |
| Travel advances | $ 472,592 | $ 695,961 |

Advances and prepayments are recorded as assets until receipt of the goods or services involved or until contract terms are met. When goods or services are received or contract terms are met, the advance or prepayment is reduced and the expense or acquired asset is recognized. There were no outstanding prepayments as of September 30, 1996 and 1995.

### NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following as of September 30, 1996, and 1995:

| Fixed Asset Class | Service Years | Acquisition Value | Accumulated Depreciation | 1996 Net Book Value | 1995 Net Book Value |
|---|---|---|---|---|---|
| Equipment | 5-8 | $ 29,015,324 | $20,933,828 | $ 8,081,496 | $ 9,958,283 |
| ADP software | 5 | 45,798,876 | 40,883,323 | 4,915,553 | 8,065,383 |
| ADP software under development | | 9,002,437 | - | 9,002,437 | 3,632,345 |
| Leasehold improvements | 5-20 | 17,230,286 | 2,604,692 | 14,625,594 | 15,519,401 |
| Leasehold improvements in progress | | 1,564,011 | - | 1,564,011 | - |
| Total | | $102,610,934 | $64,421,843 | $38,189,091 | $37,175,412 |

The straight-line depreciation method is used for all classes of fixed assets. Depreciation expense for fiscal years 1996 and 1995 was $8,540,608 and $9,129,575 respectively.

In fiscal year 1995, NRC increased the capitalization dollar amount on property and equipment from $5,000 to $50,000. All property items previously capitalized ($5,000 to $49,999.99) will continue to be depreciated over the remaining useful lives.

The land and buildings occupied by NRC are provided by the GSA. For fiscal years 1996 and 1995, the GSA charged NRC $18,446,487 and $18,580,348, respectively, for the use of these facilities based on a rental fee which is to approximate the commercial rates for similar properties.

## NOTE 6. ACCOUNTS PAYABLE AND ADVANCES

Accounts payable and advances consist of the following as of September 30, 1996 and 1995:

| | 1996 | 1995 |
|---|---|---|
| **Intragovernmental:** | | |
| **Accounts payable** | | |
| Department of Energy | $ 9,368,752 | $ 9,826,949 |
| Other Federal agencies | 2,282,932 | 2,994,531 |
| | 11,651,684 | 12,821,480 |
| **Advances** | 153,813 | 167,982 |
| | $11,805,497 | $12,989,462 |
| **Governmental:** | | |
| **Accounts payable** | | |
| Vendors payable | $19,743,864 | $20,855,270 |
| Contract holdbacks | 1,485,423 | 1,660,051 |
| | $21,229,287 | $22,515,321 |

The vendors payable are all current. Current payables represent amounts which are expected to be paid within the fiscal year following the reporting date.

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## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

### NOTE 7. ACCRUED PAYROLL AND BENEFITS

Accrued payroll and benefits as of September 30, 1996 and 1995 consists of:

| | 1996 | 1995 |
|---|---|---|
| Accrued personnel services | $ 9,824,164 | $ 8,699,085 |
| Accrued benefits | 1,703,683 | 1,577,822 |
| | $11,527,847 | $10,276,907 |

Accrued payroll and benefits represent wages and benefits which have been earned but not paid as of the financial statement date.

### NOTE 8. OTHER LIABILITIES COVERED BY BUDGETARY RESOURCES

Other liabilities as of September 30, 1996 and 1995 include:

| | 1996 | 1995 |
|---|---|---|
| **Governmental:** | | |
| Liability for deposit funds | $1,554,395 | $1,550,759 |
| Advances from others | 5,589,264 | 6,773,342 |
| | $7,143,659 | $8,324,101 |

The liability for deposit funds consists primarily of liabilities arising from payroll deductions and tax withholdings. Advances from others consists of funds primarily from foreign governments for the participation in cooperative research programs.

| | 1996 | 1995 |
|---|---|---|
| **Intragovernmental:** | | |
| Liability to offset net accounts receivable for fees assessed | $26,206,946 | $35,204,023 |
| Liability related to fees collected which will offset subsequent years' appropriations | - | 5,635,943 |
| Liability to offset net miscellaneous accounts receivable | 312,698 | 692,881 |
| | $26,519,644 | $41,532,847 |

The liability to offset the net accounts receivable for fees assessed represents amounts which, when collected, will be transferred to the U.S. Treasury to offset NRC's appropriations in the year collected.

The liability related to fees collected which will be used to offset subsequent years' appropriation represents amounts which will be transferred to the U.S. Treasury to offset subsequent years' appropriation.

The liability to offset net miscellaneous accounts receivable represents amounts which will be reverted to the U.S. Treasury when collected.

All Other Liabilities except Advances from others are current. Current liabilities represent amounts which are expected to be paid within the fiscal year following the reporting date. Advances from others may not be liquidated in the fiscal year following the reporting date.

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## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

### NOTE 9. OTHER LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Unfunded liabilities as of September 30, 1996 and 1995 include:

| | 1996 | Restated 1995 |
|---|---|---|
| **Governmental:** | | |
| Accrued annual leave | $25,359,485 | $24,563,784 |
| Accrued Workers' Compensation: | | |
| Benefits Paid | 1,476,502 | 1,261,674 |
| Estimated Future Benefits | 5,875,000 | 5,227,000 |
| | $32,710,987 | $31,052,458 |

Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken. Accrued Workers' Compensation includes: (1) Federal Employees Compensation Act (FECA) benefits paid by the Department of Labor (DOL) on NRC's behalf which had not been billed to or paid by NRC as of September 30, 1996 and 1995 and (2) an actuarial estimate for future disability benefits. The 1996 future workers' compensation estimate was generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA which includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses extrapolation method calculated over the next 23-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments were discounted to present value. The interest rates utilized for discounting ranged between 6.21 percent for year one to 5.10 percent for years six and beyond.

Accrued annual leave and accrued workers' compensation are not funded by current or prior years' appropriations and assessments. Funding will be provided from future years' appropriations and assessments (see Note 11).

## NOTE 10. INTRAGOVERNMENTAL ACTIVITIES

The NRC reporting entity's financial activities interact with and are dependent upon those of the Federal government as a whole. Other Federal agencies make financial decisions and report certain financial matters on behalf of all Federal agencies. The practice of having Federal agencies record or report only those government-wide financial matters for which they are directly responsible is consistent with generally accepted accounting principles for Federal agencies which seek to identify financial matters of the department or agency that has been granted budget authority and resources to manage them. Activities which are performed or reported by other Federal agencies in which NRC is indirectly involved are as follows:

- NRC funds a portion of its employee pension benefits under the CSRS and the FERS but does not disclose actuarial data with respect to accumulated plan benefits, plan assets, or the unfunded pension liability relative to its employees. Reporting of these amounts is the responsibility of the Office of Personnel Management.

  In addition, NRC makes contributions to the TSP on behalf of its employees. NRC does not have control over the plan's assets. The TSP is administered by the National Finance Center of the Department of Agriculture.

- Certain legal matters to which NRC may be a named party are administered, and in some cases, litigated by other Federal agencies. Amounts paid under any decision, settlement, or award pertaining thereto are generally funded through the Treasury.

  In most cases, claims (including personal injury claims) are administered and resolved by the Department of Justice and any amounts necessary for resolution are obtained from a special fund maintained by the Treasury. Any legal actions for Workers' Compensation claims brought by NRC employees fall under FECA, which is administered by the Employment Standards Administration of the U.S. Department of Labor. The cost of administering, litigating, and settling these legal matters has not been allocated to individual Federal agencies.

- Interest on borrowings of the U.S. Treasury is not included as a cost to NRC's programs and is not included in the accompanying financial statements.

*(continued on page 66)*

## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

### NOTE 11. NET POSITION

The net position consists of the following as of September 30, 1996 and 1995:

| | 1996 | Restated 1995 |
|---|---|---|
| Unexpended appropriations: | | |
| Unobligated | $ 34,765,076 | $ 62,857,857 |
| Undelivered orders | 133,392,834 | 140,502,479 |
| | 168,157,910 | 203,360,336 |
| Invested capital | 38,189,091 | 37,175,412 |
| Future funding requirements (Note 9) | (32,710,987) | (31,052,458) |
| | $173,636,014 | $209,483,290 |

Unexpended appropriations include (1) unobligated appropriation balances and (2) undelivered orders, which are amounts which have been obligated but not yet expended. The unobligated appropriations balance does not include $6,262,153 and $8,911,666 in unfilled customer orders - unobligated as of September 30, 1996 and 1995, respectively. The undelivered orders balance does not include $6,082,665 and $8,119,066 in unfilled customer orders - obligated as of September 30, 1996 and 1995, respectively.

Invested capital represents the net investment of the U.S. Government appropriations expended for NRC's capitalized property and equipment.

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 1996 and 1995. These accruals are not funded from current or prior appropriations and assessments, but rather should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for these expenses that will be paid from future appropriations (see Note 9).

## NOTE 12. APPROPRIATED CAPITAL USED

Appropriated Capital Used, a financing source, is recognized to the extent that appropriated funds have been consumed less the amount collected from fees assessed for licensing, inspections, and other services. During fiscal years 1996 and 1995, $454.0 million and $509.1 million, respectively, were collected from fees assessed for licensing, inspections and other services. OBRA requires NRC to recover approximately 100 percent of its new budget authority, less the amount appropriated from the Nuclear Waste Fund, by assessing fees. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations.

For fiscal years 1996 and 1995, $454.0 million and $501.9 million, respectively, of collections were used to reduce the fiscal year's appropriations recognized:

| | 1996 | 1995 |
|---|---|---|
| Appropriated funds consumed | $506,886,420 | $537,429,585 |
| Less: Collection from fees assessed | (454,049,125) | (501,871,000) |
| | $ 52,837,295 | $ 35,558,585 |

The appropriated capital used for fiscal years 1996 and 1995 includes $34,188,747 and $4,658,585, respectively, of available funds from prior years (see Note 18).

## NOTE 13. OTHER REVENUES AND FINANCING SOURCES

Other revenues and financing sources for September 30, 1996 and 1995 were:

| | 1996 | 1995 |
|---|---|---|
| Fees for licensing, inspection and other services | $439,416,105 | $478,855,346 |
| Other miscellaneous receipts | 2,925,844 | 3,518,733 |
| Appropriation reimbursements | 9,842,179 | 10,409,373 |
| | $452,184,128 | $492,783,452 |

*(continued on page 68)*

## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

### NOTE 14. OPERATING EXPENSES

Operating expenses by object class are as follows:

| | 1996 | Restated 1995 |
|---|---|---|
| Personnel services and benefits | $263,043,067 | $263,462,136 |
| Travel and transportation | 16,174,764 | 16,139,326 |
| Rent, communication, and utilities | 25,240,443 | 25,581,602 |
| Printing and reproduction | 1,579,151 | 2,005,287 |
| Contractual services | 189,329,595 | 216,219,114 |
| Supplies and materials | 12,868,778 | 13,353,246 |
| Grants, subsidies, and contributions | 1,486,946 | 1,456,333 |
| Insurance claims and indemnities | 101,896 | 131,477 |
| Other | 95 | 3,653 |
| | $509,824,735 | $538,352,174 |

### NOTE 15. EMPLOYEE RETIREMENT PLANS

Total NRC contributions for employee retirement plans for fiscal years 1996 and 1995 were as follows:

| | 1996 | 1995 |
|---|---|---|
| Civil Services Retirement System (CSRS) | $ 9,022,093 | $ 9,226,610 |
| Federal Employees' Retirement System (FERS) | 9,476,956 | 9,115,078 |
| Federal Insurance Contribution Act (FICA) | 6,078,868 | 5,923,317 |
| Thrift Savings Plan (TSP) | 3,754,354 | 3,580,292 |
| | $28,332,271 | $27,845,297 |

Data on the actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are maintained by other Federal agencies and are not allocated to individual departments and agencies.

## NOTE 16. OTHER EXPENSES

Other expenses as of September 30, 1996 and 1995 consist of:

| | 1996 | 1995 |
|---|---|---|
| Loss on disposal of property | $41,403 | $281,951 |
| Bad debt expense | (24,302) | 5,094 |
| | $ 17,101 | $287,045 |

## NOTE 17. EXCESS OR (SHORTAGE) OF REVENUES AND FINANCING SOURCES OVER TOTAL EXPENSES

The excess or (shortage) of revenues and financing sources over total expenses represents expenses not covered by budgetary resources for the years ended September 30, 1996 and 1995, and consists of:

| | 1996 | Restated 1995 |
|---|---|---|
| Accrued annual leave | $ (795,701) | $(140,435) |
| Accrued Workers' Compensation | (862,828) | 197,456 |
| | $(1,658,529) | $ 57,021 |

Expenses not covered by budgetary resources are not funded from current appropriations but are to be funded from future appropriations and assessments.

*(continued on page 70)*

## *NOTES TO PRINCIPAL STATEMENTS*
## *September 30, 1996 and 1995*

### NOTE 18. NON-OPERATING CHANGES

Non-operating changes for the fiscal years ended September 30, 1996 and 1995, consist of the following:

| | 1996 | 1995 |
|---|---|---|
| Change in unexpended appropriations | $(35,202,426) | $ (716,103) |
| Change in invested capital | 1,013,679 | (3,942,482) |
| | $(34,188,747) | $(4,658,585) |

### NOTE 19. PRIOR PERIOD ADJUSTMENT

Beginning in 1996, DOL, the agency which administers the Federal Employees' Compensation Act (FECA) program, began reporting NRC's estimated actuarial liability for future Workers' Compensation benefits. The estimated liability as of October 1, 1994, was $5.5 million. The impact of this adjustment on the Statement of Operations and Changes in Net Position was to decrease Fiscal Year 1995 beginning net position by $5.5 million. The effect on program expenses was nominal.

# APPENDIX

# COMMENTS OF

# THE CHIEF FINANCIAL OFFICER

**UNITED STATES**
**NUCLEAR REGULATORY COMMISSION**
**WASHINGTON, DC 20555-0001**

February 27, 1996

MEMORANDUM TO: Thomas J. Barchi
Assistant Inspector General for Audits

FROM: Ronald M. Scroggins
Acting Chief Financial Officer

SUBJECT: RESULTS OF THE AUDIT OF U.S. NUCLEAR REGULATORY COMMISSION'S FISCAL YEAR 1996 FINANCIAL STATEMENTS

We have reviewed the draft audit report of the U.S. Nuclear Regulatory Commission's fiscal year 1996 financial statements. We appreciate your assistance with the Department of Energy in our effort to obtain audit assurance and your recognition that we have accomplished all that is possible to satisfy this issue.

The reportable condition "Capitalization Procedure for Automated Data Processing (ADP) Software Need Improvement" contains two recommendations. Our comments are:

Recommendation 1: Revise the software capitalization procedure to specify the responsible NRC group, position, or contractor for making capitalization decisions and oversight.

Response: The current Division of Accounting and Finance (DAF) capitalization procedures are written to apply to whomever is assigned the task of reviewing ADP software purchases to determine the applicability of capitalization. When this assignment is made, the person designated is advised of the agency policy and procedural requirements. While a contractor may be assigned certain duties associated with capitalization, it is not appropriate to assign a contractor the responsibility of making agency capitalization decisions as the ultimate responsibility for software capitalization rests with the Office of the Controller. Therefore, we believe the current procedures are adequate to define the process required to identify capitalized software. However, ADP software capitalization by its very nature often requires subjective judgements to be made when determining capitalization

(i.e., identifying the difference between enhancements and maintenance) therefore, our emphasis in correcting this condition has been placed on your second recommendation.

Recommendation 2: Reemphasize the need for adequate oversight of contractor decisions.

Response: Upon discovery of this oversight OC reemphasized with its internal project management staff the need for adequate oversight of all contractor produced work products. Software capitalization will continue to be maintained as a matter of management emphasis for future financial statements.

The carryover reportable condition "Payroll System Must Be Integrated With The General Ledger and Possess Labor Distribution Capabilities" did not contain any recommendation as it was recognized that we are continuing our implementation of a new payroll system. We would like to point out that we are currently in the process of developing a plan for an agency-wide integrated financial management system. It is anticipated that consideration of a labor cost distribution system will be part of that plan. This process and the related priorities will influence the time frame for the institution of a labor cost distribution system.

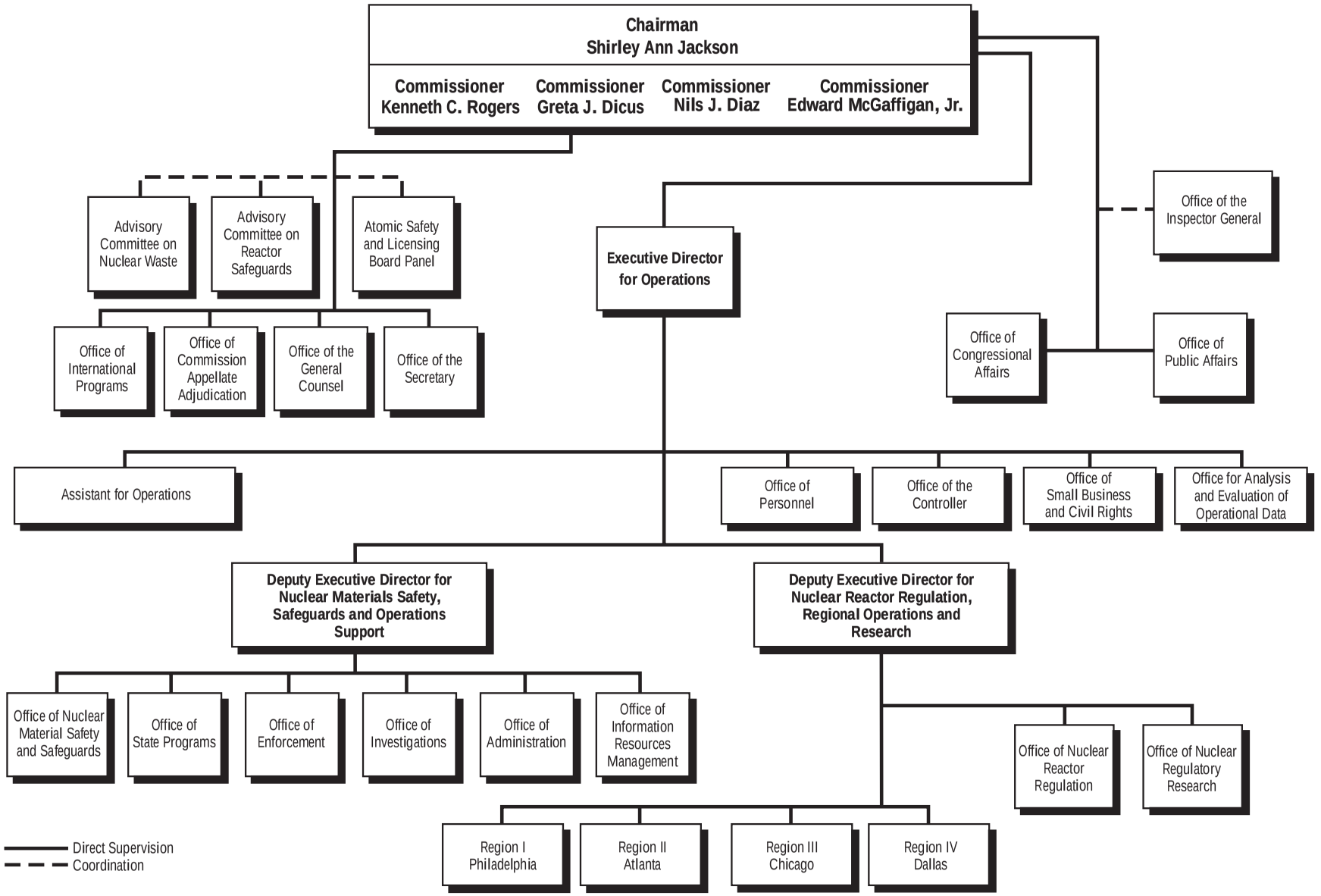
We appreciate the opportunity to respond to the draft audit report.

CONTACT: John Bird, OC/DAF/GAB
415-7343 (JEB1)

# Appendix

# U.S. Nuclear Regulatory Commission Organization Charts

September 30, 1996



# Agency Reorganization Effective

January 5, 1997